

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF HAWAII

In the Matter of

PUBLIC UTILITIES COMMISSION

Instituting a Proceeding to Investigate
Implementing a Decoupling Mechanism for
Hawaiian Electric Company, Inc., Hawaii Electric
Light Company, Inc., and Maui Electric Company,
Limited

DOCKET NO. 2008-02

PUBLIC UTILITIES
COMMISSION

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**MOTION FOR INTERIM APPROVAL
OF A DECOUPLING MECHANISM FOR HAWAIIAN ELECTRIC
COMPANY, INC., HAWAII ELECTRIC LIGHT COMPANY, INC., AND
MAUI ELECTRIC COMPANY, LIMITED**

MEMORANDUM IN SUPPORT OF MOTION

DECLARATION OF COLTON CHING

ATTACHMENTS 1-7

AND

CERTIFICATE OF SERVICE

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BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF HAWAII

In the Matter of

PUBLIC UTILITIES COMMISSION

DOCKET NO. 2008-0274

Instituting a Proceeding to Investigate
Implementing a Decoupling Mechanism for
Hawaiian Electric Company, Inc., Hawaii
Electric Light Company, Inc., and Maui
Electric Company, Limited

**MOTION FOR INTERIM APPROVAL
OF A DECOUPLING MECHANISM FOR HAWAIIAN ELECTRIC
COMPANY, INC., HAWAII ELECTRIC LIGHT COMPANY, INC., AND
MAUI ELECTRIC COMPANY, LIMITED**

HAWAIIAN ELECTRIC COMPANY, INC. ("Hawaiian Electric"), HAWAII
ELECTRIC LIGHT COMPANY, INC. ("HELCO"), and MAUI ELECTRIC COMPANY,
LIMITED ("MECO"), collectively, the "Hawaiian Electric Companies" or "Companies",
respectfully move the Commission for interim approval of:

- (1) the establishment and implementation by Hawaiian Electric of the revenue balancing account ("RBA") (with a slight modification, as shown in Attachment 1 hereto,¹ to include only one RBA account for all residential and nonresidential customers) to be effective January 1, 2010;
- (2) the establishment and implementation by Hawaiian Electric of the revenue adjustment mechanism ("RAM") (with modifications, as shown in Attachment 2 hereto,² (a) to refund to ratepayers (with interest) RAM revenues associated with disallowed costs for

¹ Attachment 1 hereto is a copy of Hawaiian Electric's proposed Interim RBA Tariff Provision. This modification was identified in the Hawaiian Electric Companies' Opening Brief, filed September 8, 2009 at pages 92-94. See also Hawaiian Electric's Reply Brief, filed September 29, 2009 at page 47.

² Attachment 2 hereto is a copy of Hawaiian Electric's proposed Interim RAM Tariff Provision.

Baseline Capital Projects,³ and (b) to include an interim performance metric as described in Part III.F of the attached Memorandum in Support of Motion) to be effective, beginning with calendar year 2010;⁴

- (3) both the Hawaiian Electric RBA and RAM to remain in effect until interim rates become effective⁵ pursuant to an interim decision and order in Hawaiian Electric's 2011 test year rate case, provided that Hawaiian Electric:
 - (a) does not file a 2010 test year rate case application, and
 - (b) files its 2011 test year rate case application by August 16, 2010;
- (4) implementation by HELCO and MECO of the RBA and RAM (with slight modifications, as shown in Attachments 3-6 hereto) at such time as interim rates become effective pursuant to interim decision and orders in HELCO's and MECO's respective 2010 test year rate cases;⁶ and
- (5) the continuation of this proceeding for the primary purpose of evaluating the design and

³ Projects with costs below the Commission's General Order No. 7 threshold, as modified by Decision and Order No. 21002, are referred to as "Baseline Capital Projects". This modification was identified in the Hawaiian Electric Companies' Opening Brief, filed September 8, 2009 at page 98.

⁴ As proposed by the Division of Consumer Advocacy of the Department of Commerce and Consumer Affairs and the Hawaiian Electric Companies in the Joint Decoupling Proposal. The "Joint Decoupling Proposal" is the proposal set forth in the *Joint Final Statement of Position of the HECO Companies and Consumer Advocate*, and the exhibits attached thereto, filed on May 11, 2009, as amended by the *Revised and New Exhibits* jointly filed by the Hawaiian Electric Companies and Consumer Advocate on June 25, 2009, and as further amended by Attachment 7 to the Hawaiian Electric Companies' responses to the Commission's questions from the panel hearings held from June 29, 2009 to July 1, 2009, which responses the Hawaiian Electric Companies filed on July 13, 2009.

⁵ The definition of elements of and the description of the process for the calculation, recovery and refund of target revenues that are based on the interim decision and order(s) issued by the Commission in the Hawaiian Electric 2009 rate case, Docket No. 2008-0083, are described in the Interim RBA and RAM Tariff Provisions, Attachments 1 and 2, respectively. When the interim decision and order in Hawaiian Electric's 2011 rate case is issued by the Commission (anticipated to be in June or July, 2011), it would establish the revised 2011 target revenue, based on the 2011 rate case. Thus, the 2011 RAM (which was based on the 2009 rate case) would end and Hawaiian Electric would not collect RAM revenues for the remaining months in 2011. The actual collection from the customers would be based on the tariff provision for collection from customers and the reconciliation of the amount would be based on the tariff provision.

⁶ Attachment 3 hereto is a proposed Interim RBA Tariff Provision for MECO. Attachment 4 hereto is a proposed Interim RAM Tariff Provision for MECO. Attachment 5 hereto is a proposed Interim RBA Tariff Provision for HELCO. Attachment 6 hereto is a proposed Interim RAM Tariff Provision for HELCO.

potential adoption of clean energy-related decoupling performance metrics, with final statements of position to be filed by the parties no later than June 30, 2010.⁷

Interim approval of the RBA and RAM should be granted, as it will: (1) encourage utility support for clean energy policies related to energy efficiency measures and distributed renewable energy generation; (2) provide regulatory benefits by reducing the frequency of rate cases; (3) help to maintain the Companies' financial integrity through the timely tracking between rate cases of changes in business and economic conditions faced by the utilities that impact operations and maintenance costs and the return on and return of investments in infrastructure; and (4) afford Hawaiian Electric an opportunity to develop a sufficient "track record" for decoupling in advance of the review of the RBA and RAM expected to be conducted in Hawaiian Electric's 2011 rate case.

The Joint Decoupling Proposal contemplates that the RBA and RAM will be reviewed in the Companies' second round of rate cases, which for Hawaiian Electric would be its 2011 test year rate case. Although a substantial record has been developed in this docket to support the Joint Decoupling Proposal, the actual performance of Hawaiian Electric's RBA and RAM cannot be evaluated until those mechanisms have actually been implemented over a period of time long enough to provide meaningful information and experience as to how well they work.⁸

It is essential and in the public interest that the Hawaiian Electric Companies be allowed to implement decoupling at this time. The immediate issuance of an interim approval of the RBA and RAM for the Hawaiian Electric Companies along with the continuation of this docket will provide the Companies an opportunity to improve their financial health through a

⁷ A possible schedule for the continuation of this proceeding is proposed in Section III.E of the accompanying Memorandum in Support of Motion.

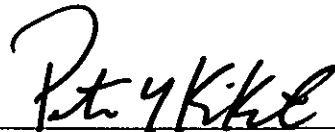
⁸ A more detailed description of the need for, as well as the benefits and parties' positions on decoupling and the Joint Decoupling Proposal is provided in the "Decoupling Background" included as Attachment 7 hereto.

stabilization of revenues; remove financial disincentives associated with conservation, energy efficiency, and customer-sited DG; and allow the parties more time to gather and share information regarding the actual decoupling and RAM implementation experience, and to review and develop appropriate metrics that would enhance decoupling, including the RBA and RAM, in the future.

This motion is filed pursuant to Section 6-61-41 of the Rules of Practice and Procedure Before the Public Utilities Commission, Title 6, Chapter 61 of the Hawaii Administrative Rules, and Sections 269-6(a), 269-6(b) and 269-7 of the Hawaii Revised Statutes, and supported by the attached Memorandum in Support of Motion and accompanying Attachments.

No hearing is requested on this motion.

DATED: Honolulu, Hawaii, November 25, 2009.



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MAUI ELECTRIC COMPANY, LIMITED

BEFORE THE PUBLIC UTILITIES COMMISSION
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Instituting a Proceeding to Investigate
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Hawaiian Electric Company, Inc., Hawaii
Electric Light Company, Inc., and Maui
Electric Company, Limited

DOCKET NO. 2008-0274

MEMORANDUM IN SUPPORT OF MOTION

This Memorandum is submitted by HAWAIIAN ELECTRIC COMPANY, INC. ("Hawaiian Electric"), HAWAII ELECTRIC LIGHT COMPANY, INC. ("HELCO"), and MAUI ELECTRIC COMPANY, LIMITED ("MECO")¹ in support of their Motion for Interim Approval of a Decoupling Mechanism ("Motion").

I. INTRODUCTION

It is essential and in the public interest that the Hawaiian Electric Companies be allowed at this time to implement the interim revenue balancing account ("RBA") and revenue adjustment mechanism ("RAM") tariff provisions respectively described in Attachments 1-6 to the Motion. The Companies' immediate need for decoupling and the establishment of the RAM is driven by the trend of decreasing sales caused by energy efficiency, conservation, increasing amounts of customer-sited distributed generation ("DG"), and a poor economy, all of which jeopardize the financial well-being of the utilities when these sales decreases occur between rate cases and when actual sales are below test year sales during a rate case test year. For example,

¹ Hawaiian Electric, HELCO and MECO are collectively referred to as the "Hawaiian Electric Companies" or "Companies".

as Hawaiian Electric demonstrated in its 2009 test year rate case proceeding, Docket No. 2008-0083, the cumulative effect of these factors has resulted in a trend of decreasing sales since 2004² and recorded September 2009 year-to-date energy sales 3.5% less than recorded year-to-date energy sales of a year earlier and 1.6% less than the year-to-date energy sales forecasted for the 2009 test year.³ As of June 30, 2009, Hawaiian Electric's, HELCO's, and MECO's 12-month trailing rates of return on common equity ("ROE") were only 6.4%, 6.77%, and 5.22%,⁴ respectively. All three Companies' ROEs were more than 300 basis points below that of their authorized ROEs.⁵

State energy policy strongly supports substantially increasing the extent to which electricity is produced from indigenous renewable resources, as well as the availability of reliable electricity to support the needs of Hawaii's businesses, the military and residential customers. Establishment and implementation of the RBA and RAM will maintain the Companies' financial integrity and enable them to undertake and achieve the requirements and commitments in the revised Renewable Portfolio Standards ("RPS") law and in the Energy Agreement,⁶ which triggered the changes in the RPS law.

A substantial record supporting decoupling has been developed and briefed by the parties

² HECO-212, Docket No. 2008-0083, page 1, filed July 3, 2008; see HECO Hearing Exhibit 1, Docket No. 2008-0083, HECO T-2, page 2, filed October 28, 2009.

³ HECO Hearing Exhibit 3, Docket No. 2008-0083, HECO T-2, page 2, re-filed (on a confidential basis) November 3, 2009.

⁴ Letter to Mr. Steven Iha, *Monthly Rate of Return on Rate Base and Common Equity (Book Method), April and May 2009 (Refiled), June 2009, June 2009 (Ratemaking Method)*, dated August 7, 2009.

⁵ As of August 3, 2009, the ROE found by the Commission to be reasonable in the most recent final rate decision for each utility was 10.7% for Hawaiian Electric (Docket No. 04-0113), 11.5% for HELCO (Docket No. 99-0207), and 10.94% for MECO (Docket No. 97-0346).

⁶ The October 20, 2008 *Energy Agreement among the State of Hawaii, Division of Consumer Advocacy of the Department of Commerce and Consumer Affairs, and the Hawaiian Electric Companies* is referred to as the "Energy Agreement".

in this docket, and has culminated in the development of a Joint Decoupling Proposal,⁷ filed by the Consumer Advocate and the Hawaiian Electric Companies, that is both just and reasonable. The RBA and RAM being proposed in the instant Motion are the RBA and RAM that are included in the Joint Decoupling Proposal, with the modifications identified in Attachments 1-6 of the Motion.

The Joint Decoupling Proposal: (1) is thorough, complete and well thought out; (2) is relatively simple and straight forward; (3) from a customer standpoint, is relatively conservative; and (4) addresses the problems that it was intended to address, with exit ramps to address significant unintended consequences. In addition, the hybrid RAM component of the Joint Decoupling Proposal is neither novel nor untested.

All of the parties to this proceeding either support or appear to support sales decoupling. The Consumer Advocate fully supports the Joint Decoupling Proposal. The other parties also appear to recognize that the decoupling provision adopted in this docket should include a mechanism to establish the net revenue target (i.e., the target revenue requirement after excluding costs recovered or tracked through other mechanisms) between rate cases.⁸

The Motion should be granted, as interim approval of decoupling will: (1) encourage utility support for clean energy policies; (2) reduce the frequency of rate cases; (3) help to maintain the Companies' financial integrity; and (4) afford Hawaiian Electric an opportunity to

⁷ The "Joint Decoupling Proposal" is the proposal forth in the *Joint Final Statement of Position of the HECO Companies and Consumer Advocate* ("Joint FSOP"), and exhibits attached thereto ("Joint FSOP"), filed on May 11, 2009, as amended by the *Revised and New Exhibits* jointly filed by the Hawaiian Electric Companies and the Division of Consumer Advocacy of the Department of Commerce and Consumer Affairs ("Consumer Advocate") filed on June 25, 2009, and as further amended by Attachment 7 to the Companies' responses to the Commission's questions from the panel hearings held from June 29, 2009 to July 1, 2009, which responses the Companies filed on July 13, 2009.

⁸ A more detailed description of the need for, as well as the benefits and parties' positions on decoupling and the Joint Decoupling Proposal is provided in the "Decoupling Background" included as Attachment 7 to the instant Motion.

develop a sufficient “track record” for decoupling in advance of the review of the RBA and RAM expected to be conducted in Hawaiian Electric’s 2011 test year rate case.⁹

The primary point of difference remaining among the parties in this docket relates to the issue of clean energy-related decoupling performance metrics, which the Companies generally support. The immediate approval of the RBA and RAM for Hawaiian Electric, along with the continuation of this docket, will allow the parties more time to gather and share information regarding the actual decoupling and RAM implementation experience and to review and develop appropriate metrics that would enhance decoupling and the RAM in the future.

II. DECOUPLING IS NEEDED NOW

Interim approval of the RBA and RAM should be granted, as it will: (1) encourage utility support for clean energy policies related to energy efficiency measures and distributed renewable energy generation; (2) provide regulatory benefits by reducing the frequency of rate cases; (3) help to maintain the Companies’ financial integrity through the timely tracking between rate cases of changes in business and economic conditions faced by the utilities that impact operations and maintenance (“O&M”) costs and the return on and return of investments in infrastructure; and (4) afford Hawaiian Electric an opportunity to develop a sufficient “track record” for decoupling in advance of the review of the RBA and RAM expected to be conducted in Hawaiian Electric’s 2011 rate case.

The need to address the Companies’ financial health is at a critical juncture. As stated above, all three companies’ 12-month trailing ROEs as of June 2009 are more than 300 basis points less than that authorized by the Commission in their most recent rate cases, primarily as a

⁹ As summarized in the Companies’ Reply Brief, “the immediate issuance of an interim decision and order approving the RBA and RAM for the HECO Companies along with the continuation of this docket will allow the parties more time to gather and share information regarding the actual decoupling and RAM implementation experience and to review and develop appropriate metrics that would enhance decoupling and the RAM in the future.” HECO RB at 17.

result of decreasing sales caused by energy efficiency, conservation, increasing amounts of customer-sited DG and a poor economy. In addition, the Energy Agreement commitments undertaken by the Companies include initiatives that will further erode sales growth and move the current oil-based power network to a more renewable, distributed and intermittent-powered system which may require the Companies to incur additional expenses to maintain service reliability to their customers. As stated by the Consumer Advocate, the Energy Agreement signatories realized “that the traditional regulatory framework would not allow the stated objectives to be met within the overall target deadline of the year 2030. No longer could sales growth between rate cases be used by the utility to ‘pay for’ its increasing costs without needing frequent rate cases With this realization of changed circumstances and the expectations of displacement of future utility sales with renewable and customer-sited resources, the HCEI Agreement provided in paragraph 28 for a new general framework of regulation involving decoupling and formulaic rate adjustments to spread out the need for future traditional rate cases.” See CA OB at 8-9.

The Joint Decoupling Proposal, which reflects this new framework of regulation as envisioned in the Energy Agreement, was developed by the Companies and the Consumer Advocate with contributions from the other parties through their active participation in technical workshops, information requests, their own statements of position, and through their participation in hearings. It consists of both (1) a sales decoupling component which breaks the link between sales and electric revenue, and (2) a revenue adjustment mechanism. As discussed on page 44 of the Companies’ Opening Brief,¹⁰ the Joint Decoupling Proposal contemplates that

¹⁰ For purposes of citation to the record in this docket, opening briefs are referred to herein as “OB”, and reply briefs are referred to as “RB”. In addition, the parties’ names are abbreviated as follows: Hawaiian Electric Companies (“HECO”), Consumer Advocate (“CA”), Haiku Design and Analysis (“HDA”),

the RBA and RAM will be reviewed in the Companies' second round of rate cases, which for Hawaiian Electric would be its 2011 test year rate case. Although a substantial record has been developed in this docket to support the Joint Decoupling Proposal, the actual performance of Hawaiian Electric's RBA and RAM cannot be evaluated until those mechanisms have actually been implemented over a period of time long enough to provide meaningful information and experience as to how well they work.

The sooner decoupling is actually implemented, the more meaningful the 2011 review of the RBA and RAM will be. Accordingly, it is essential that the Companies be permitted to implement decoupling sooner rather than later. If Hawaiian Electric is not afforded an opportunity to develop a sufficient "track record" for decoupling in advance of its 2011 rate case, there will likely be little if any new information to evaluate that has not already been considered by the parties in this docket.

III. HAWAIIAN ELECTRIC COMPANIES' INTERIM REQUEST

The instant Motion requests interim approval of:

- (1) the establishment and implementation by Hawaiian Electric of the RBA (with a slight modification, as shown in Attachment 1 to the Motion,¹¹ to include only one RBA account for all residential and nonresidential customers) to be effective January 1, 2010;
- (2) the establishment and implementation by Hawaiian Electric of the RAM (with modifications, as shown in Attachment 2 to the Motion,¹² (a) to refund to ratepayers (with interest) RAM revenues associated with disallowed costs for Baseline Capital Projects,¹³ and (b) to include an interim performance metric as described in Part III.F of this

Department of Business, Economic Development, and Tourism ("DBEDT"), Blue Planet Foundation ("Blue Planet"), Hawaii Solar Energy Association ("HSEA"), and Hawaii Renewable Energy Alliance ("HREA").

¹¹ Attachment 1 hereto is a copy of Hawaiian Electric's proposed Interim RBA Tariff Provision.

¹² Attachment 2 hereto is a copy of Hawaiian Electric's proposed Interim RAM Tariff Provision.

¹³ Projects with costs below the Commission's General Order No. 7 threshold, as modified by Decision and Order No. 21002, are referred to as "Baseline Capital Projects".

memorandum) to be effective, beginning with calendar year 2010;¹⁴

- (3) both the Hawaiian Electric RBA and RAM to remain in effect until interim rates become effective pursuant to an interim decision and order in Hawaiian Electric's 2011 test year rate case, provided that Hawaiian Electric:
 - (a) does not file a 2010 test year rate case application, and
 - (b) files its 2011 test year rate case application by August 16, 2010;
- (4) implementation by HELCO and MECO of the RBA and RAM (with slight modifications, as shown in Attachments 3-6 to the Motion) at such time as interim rates become effective pursuant to interim decision and orders in HELCO's and MECO's respective 2010 test year rate cases; and
- (5) the continuation of this proceeding for the primary purpose of evaluating the design and potential adoption of clean energy-related decoupling performance metrics, with final statements of position to be filed by the parties no later than June 30, 2010.¹⁵

As indicated above, the details of the mechanisms that the Companies are seeking interim approval to establish and implement are set forth in Attachments 1, 3 and 5 (Interim RBA Tariff Provisions for Hawaiian Electric, MECO and HELCO, respectively) and Attachments 2, 4 and 6 (Interim RAM Tariff Provisions for Hawaiian Electric, MECO and HELCO, respectively) to the instant Motion. The key components of these mechanisms include:

- (1) a sales decoupling mechanism, which would be implemented through a RBA tariff provision (see Attachments 1, 3 and 5);
- (2) a RAM, consisting of an O&M expense RAM component and a Rate Base RAM component, which is in the form of a RAM tariff provision (see Attachments 2, 4 and 6);¹⁶

¹⁴ As proposed by the Division of Consumer Advocacy of the Department of Commerce and Consumer Affairs and the Hawaiian Electric Companies in the Joint Decoupling Proposal. The "Joint Decoupling Proposal" is the proposal set forth in the *Joint Final Statement of Position of the HECO Companies and Consumer Advocate*, and the exhibits attached thereto, filed on May 11, 2009, as amended by the *Revised and New Exhibits* jointly filed by the Hawaiian Electric Companies and Consumer Advocate on June 25, 2009, and as further amended by Attachment 7 to the Hawaiian Electric Companies' responses to the Commission's questions from the panel hearings held from June 29, 2009 to July 1, 2009, which responses the Hawaiian Electric Companies filed on July 13, 2009.

¹⁵ A possible schedule for the continuation of this proceeding is proposed in Section III.E of this memorandum.

¹⁶ The revenue adjustments resulting from the RAM tariff provision also would be implemented through the RBA tariff provision.

- (3) an Earnings Sharing Revenue Credit Mechanism, which would be implemented through a RBA tariff provision (see Attachments 1, 3 and 5 at 4); and
- (4) consumer protection features included in the RAM tariff provision (in addition to the Earnings Sharing Revenue Credit Mechanism), a provision for Major Capital Projects Credits¹⁷ (see Attachments 2, 4 and 6 at 4-5), and a provision for Baseline Capital Projects' Credits (see Attachments 2, 4 and 6 at 5).¹⁸

As further discussed in the Companies' Reply Brief, the Joint Decoupling Proposal is both just and reasonable. In its Opening Brief, HDA expressed its general support for interim approval of the RBA and RAM, and recommended that the Commission "issue an interim decision and order in this docket to capture some immediate opportunities that could result from a prompt decision by the Commission." HDA OB at 7. HDA recommended that the interim decision and order approve the proposed RBA and RAM decoupling mechanisms to commence immediately for Hawaiian Electric, "contingent upon HECO's agreement not to file a 2010 test year rate case".¹⁹ HDA OB at 7. In their Reply Brief (see pages 11-13), the Companies agreed that if the Commission orders the establishment of the 2010 RAM for Hawaiian Electric, along with an RBA effective immediately, Hawaiian Electric will not file a 2010 test year rate case.

For MECO and HELCO, HDA recommended that the Commission order the implementation of the RBA with interim decision and orders for MECO and HELCO in their 2010 test year rate cases which would provide "a current, reasonable determination of target authorized revenues". HDA OB at 7 n.5.

¹⁷ See Attachment 7, page 4 of the Companies' responses to *Questions from Panel Hearings Held on June 29 to July 1, 2009* letter to the Commission, filed July 13, 2009.

¹⁸ Projects with costs in excess of the Commission's General Order No. 7 ("G.O. 7") threshold, as amended by Decision and Order No. 21002, are referred to as "Major Capital Projects". Projects with costs not in excess of the G.O. 7 threshold, as amended by Decision and Order No. 21002, are referred to as "Baseline Capital Projects".

¹⁹ The Energy Cost Adjustment Clause ("ECAC") is also proposed to be modified either by adopting the deadband around the target heat rate as reflected in the Joint FSOP or by allowing a straight pass through of actual fuel and purchased energy expenses. See HDA OB at 9.

A. ESTABLISHMENT OF THE RBA FOR THE HAWAIIAN ELECTRIC COMPANIES

In the opening briefs filed by the parties, no party objected to the establishment of the RBA for the Hawaiian Electric Companies, as pointed out by the Consumer Advocate.²⁰ See CA OB at 16; see also Blue Planet OB at 10; DBEDT OB at 26; HDA OB at 11; HREA OB at 1; HSEA OB at 1. The RBA as proposed in both the Joint Decoupling Proposal and Attachments 1, 3 and 5 to the Motion is conservative in design, simple, and workable with filings and review procedures. Other advantages of the RBA are that it will make the Companies indifferent to changes in future sales volumes, will stabilize the Companies' revenues which will protect the Companies' financial condition, and will result in less frequent rate cases. CA OB 14-15. HDA in its Opening Brief maintained that the RBA as proposed in the Joint FSOP is superior to even its own decoupling proposal, providing "more transparency and accountability". HDA OB at 5.

If the Commission were to order the establishment of the RBA as proposed in the instant Motion, Hawaiian Electric target revenues would be based on a rigorously reviewed test year that is the most current possible, the 2009 test year.²¹ As a result, the authorized rates will have been determined to be just and reasonable for both Hawaiian Electric and ratepayers with the commencement of decoupling as well as the monthly allocation of the target revenue, since it will be based on the most current sales forecast that has been determined by the Commission to be reasonable. With the Commission's finding that the target revenue, authorized rates and sales forecast have been reasonably determined, there should be little bias in the development of the

²⁰ Although, as further discussed below, Blue Planet recommended in its Reply Brief that the Commission consider ordering the Companies to implement the RBA and RAM, "predicated upon the Commission also adopting" Blue Planet's recommendations "regarding the PIM (in particular, the technical session, subsequent briefing, and a Commission decision on the PIM)." Blue Planet RB at 12.

²¹ The immediate establishment of the RBA will fulfill item 1 in Section 28 of the Energy Agreement, which states, "The revenues of the utility will be fully decoupled from sales/revenues beginning with the interim decision in the 2009 Hawaiian Electric Rate Case (most likely in the summer of 2009)."

RBA accumulated balance.

Moreover, with the establishment of the RBA as of January 1, 2010, Hawaiian Electric will be able to collect revenues in 2010 that align with the test year revenue requirement authorized in Hawaiian Electric's 2009 test year rate case Interim Decision and Order, as adjusted based on the 2010 RAM determined in accordance with the Interim RAM Tariff Provision. The 2009 test year interim results of operations, which are the most currently available and reviewed estimate of O&M expenses (broken down by labor and nonlabor), projected Major Capital Projects' schedule, and sales forecast, would be used as the base for the 2010 RAM that is then used to determine the 2010 target revenue.

Similarly, if the Commission were to order the immediate establishment of the RBA and RAM for MECO and HELCO with the issuance of the interim decision and orders for their 2010 test year rate cases, as noted by HDA, "the sensitivity of the determination of the test year sales and demand forecasts as substantial contested issues" would be eliminated. HDA OB at 8 n.7.

The establishment of the RBA for the Companies is considered beneficial by all of the parties and part of the Hawaii Clean Energy Initiative ("HCEI"), which provides "a policy framework for achieving Hawaii's energy objectives articulated in chapter 226-18, Hawaii Revised Statutes". DBEDT OB at 6.²²

B. RBA AND RAM MODIFICATIONS

The Companies' interim request includes modifications to the RBA and RAM mechanisms described in the Joint Decoupling Proposal that would: (1) include only one RBA account for all residential and nonresidential customers; (2) refund to ratepayers (with interest) RAM revenues associated with disallowed costs for Baseline Capital Projects; and (3) include a

²² DBEDT also stated in its Opening Brief that it "does not find anything objectionable to the RBA component of HECO's proposed decoupling mechanism." DBEDT OB at 14.

performance metric as described in Part III.F of this memorandum.

1. Inclusion of One RBA Account Instead of Two

The advantages of including in the Interim RBA Tariff Provision only one RBA account instead of the two RBA accounts (i.e., residential and nonresidential subaccounts) that were included in the Joint Decoupling Proposal include simplicity of administration, smoothing of customer impacts between rate cases, and an allocation of costs that is a proxy for a revised cost-of-service study. See HECO OB at 92-94, HECO RB at 47; Blue Planet OB at 12-14. DBEDT agrees that “the total RBA/RAM adjustments (if approved) be implemented based on a ¢/kWh surcharge applied to all rate classes” (DBEDT RB at 28) and the Consumer Advocate has no objection to this modification (see CA RB at 29). No objections to the use of a single RBA account have been raised by the other parties.

2. Refund of Disallowed Baseline Capital Project Costs

Questions were raised during this proceeding’s hearings regarding the use of actual plant balances for the beginning of year balances in the RAM, since there would be no review of the reasonableness of cost overruns in the case of Major Capital Projects, or project costs in the case of Baseline Capital Projects. In response to these questions, the Hawaiian Electric Companies and the Consumer Advocate pointed out, among other things, that they intended to include a refund condition in the case of Major Capital Project cost overruns that were subsequently disallowed when reviewed in a rate case, and the wording in the proposed RAM tariff provision was revised to incorporate the Major Capital Projects Revenue Credits provision.²³ See HECO

²³ In the case of Hawaiian Electric’s East Oahu Transmission Project (“EOTP”), it also was noted in the Companies’ Revenue Decoupling Proposal, filed January 30, 2009 at 27 n.12, that pre-2003 planning costs (and the related Allowance for Funds Used During Construction) would not be included in the rate base RAM beginning of year balance, as a result of the October 28, 2005 stipulation between Hawaiian Electric and the Consumer Advocate reached in the EOTP proceeding, Docket No. 03-0417.

OB at 46.

The Hawaiian Electric Companies also expressed their willingness to expand the rate base RAM language to state that the Companies will refund (with interest) RAM revenues associated with disallowed costs for Baseline Capital Projects (i.e., projects estimated to cost less than \$2.5 million). See HECO OB at 98. The Interim RAM Tariff Provisions, Attachments 2, 4 and 6 (page 3), reflect this modification. With the revision, if Baseline Capital Project costs are disallowed to a point where the total amount of Baseline Capital Projects' costs are below what was estimated and used to calculate the rate base RAM, the Companies will refund the RAM revenues associated with the difference, with interest. This change should address any concern that ratepayers might "pay" for projects that have not been reviewed and found to be "prudent". See HECO OB at 97-98.

C. ESTABLISHMENT OF THE RAM FOR HAWAIIAN ELECTRIC

As noted above, the Motion seeks approval for Hawaiian Electric to immediately implement the RBA and RAM described in Attachments 1 and 2 to the Motion effective January 1, 2010, and to have those mechanisms remain in effect until interim rates become effective pursuant to an interim decision and order in Hawaiian Electric's 2011 test year rate case. This would enable the utility to be compensated for increases in 2010 and 2011 utility costs and infrastructure investment between the time that the RAM is approved and the time interim rates go into effect in connection with Hawaiian Electric's 2011 test year rate case.

Because of the structural regulatory lag that takes place during a test year, if Hawaiian Electric is not allowed to continue the RAM while fixing its revenues to the 2009 test year level, the Company will not be given an opportunity to reach its authorized rate of return. Also, by allowing the RAM to continue until interim rates become effective pursuant to an interim

decision and order in Hawaiian Electric's 2011 test year rate case, a second RBA and RAM annual filing will take place, which may provide a better picture of how the RBA and RAM process actually works when fully implemented and ongoing.

Although HDA's Opening Brief proposed that "the RAM mechanism be in place for a pilot period of one year",²⁴ HDA clarified in its Reply Brief that "HDA is not opposed to the pilot RAM accrual period ultimately being extended to include the period up until the interim order in HECO's 2011 test year rate case." HDA RB at 3.

Blue Planet recommends that the Commission "adopt and order immediate implementation of the RAM for HECO", but only if the Commission adopts Blue Planet's specific recommendations with regard to subject to certain conditions related to the performance incentive mechanism ("PIM") and other issues. If the Commission does not adopt Blue Planet's specific recommendations with regard to the PIM and other issues, Blue Planet does not support immediate implementation of RAM for Hawaiian Electric. See Blue Planet OB at 11-13. Blue Planet's conditions related to the PIM are further discussed in Section III.E of this memorandum.

To provide the parties with an indication of Hawaiian Electric's commitment to file a 2011 test year rate case and to set an expected date for the issuance of an interim decision and order in its 2011 test year rate case, Hawaiian Electric committed in its Reply Brief to filing its 2011 test year rate case application by August 16, 2010. Further, as stated in their Reply Brief, the Hawaiian Electric Companies "generally support the adoption of some type of broad-based clean energy performance incentive mechanism in this proceeding, subject to agreement on the specific mechanism and its details" and "are willing to continue the dialogue with the other parties to discuss the performance incentive mechanism ('PIM') such that the Commission may

²⁴ HDA OB at 7.

defer a decision on the PIM until the issue is thoroughly evaluated by the parties.” HECO RB at 79-80.

Pursuant to Hawaii Revised Statutes (“HRS”) § 269-16(d), an interim rate case decision and order would be expected from the Commission within 10 or 11 months of the filing of a completed application, depending on whether the evidentiary hearing has taken place. The filing and date of August 16, 2010 suggests that an interim decision and order for the 2011 test year rate case would be expected by June or July 2011. Regardless of the Commission’s decision on the RAM in Hawaiian Electric’s 2011 test year rate case interim decision and order in that docket, the continuation of the RBA would not be affected, unless otherwise ordered by the Commission.

D. ESTABLISHMENT OF THE RAM FOR MECO AND HELCO

With respect to MECO and HELCO, the Motion seeks approval to implement the RBA and RAM provisions described in Attachments 3-6 to the Motion at such time as interim rates become effective pursuant to interim decision and orders in MECO and HELCO’s respective 2010 test year rate cases. Similar to Hawaiian Electric, implementation of the RBA and RAM at such time will allow MECO and HELCO to set target revenues based on a rigorously reviewed test year that is the most current possible.

In its Reply Brief, Blue Planet stated that it “has no position at this time as to when the Commission may order implementation of the RAM for MECO and/or HELCO.” Blue Planet RB at 12 n.17.

HDA recommended that the RAM should not be approved for MECO and HELCO until, based on the information gathered during Hawaiian Electric’s RAM pilot period, the Commission determines that the RAM should be approved for MECO and HELCO. The

Hawaiian Electric Companies do not agree with this proposal. As discussed above, the RAM is needed in addition to the RBA because the RBA provides no opportunity for the Companies to recover any increasing costs to provide service.

The RAM as proposed by the Consumer Advocate and the Companies conservatively simulates changes in cost and is expected to “impose cost management discipline[] upon HECO Companies’ management, while still providing a reasonable opportunity to recover inflationary increases in cost as well as increased capital investment so as to reduce the need for formal rate cases.” CA OB at 19. If MECO and HELCO are not allowed to implement the RAM (along with the approval of the RBA upon the issuance of the interim decision and orders for their 2010 test year rate cases) they may require back-to-back rate cases, depending on the inflationary and economic pressures that are experienced or forecasted for 2011.

In addition, the Commission’s decision regarding the continuation of the Hawaiian Electric RAM would most likely be issued in mid-2011 at the earliest. Even if it were determined sometime in mid-2011 that the RAM should be established for MECO and HELCO, MECO and HELCO will have experienced a number of months in 2011 during which their target revenues were held to 2010 test year revenue requirement levels. As a result, even if the RAM were then implemented immediately with the Commission’s order, the opportunity to earn a reasonable return would be diminished considerably. However, if the RAM is not allowed to be effective for calendar year 2011 for MECO and HELCO, the RAM revenues will be refunded (with interest) if the Commission determines that the RAM should not have been implemented.

E. CONTINUATION OF THE PROCEEDING

The primary point of difference remaining among the parties in this docket relates to the issue of clean energy-related decoupling performance metrics, which the Companies generally

support. See HECO RB at 79-80. As discussed in the Companies' Reply Brief, the support of some of the parties for the RAM component of decoupling is qualified by their desire to directly link accomplishment of RPS goals or commitments in the Energy Agreement to the Hawaiian Electric Companies' receipt of revenues under the proposed RAM.

For example, HDA recommended that this docket remain open to review: (1) the "pilot" RAM implementation and to determine if the RAM should be continued, amended, or terminated; (2) what the impacts on decoupling are due to decisions made in other HCEI-related dockets; (3) alternatives to the RAM to improve the administration of the ratemaking process; and (4) refinements to decoupling such as methods to allocate decoupling and RAM adjustments to rate classes.

Although HDA acknowledged that the instant docket may not be the best venue to review an HCEI master plan, it recommended that the Commission require the submission of a draft master plan by the end of the first quarter of 2010 to understand "how the various elements of the Energy Agreement and HCEI initiatives will work together in order to proceed with approval of the individual components." HDA OB at 40 n.36.

In its Opening Brief, DBEDT proposed performance metrics for service reliability and for meeting net energy metering ("NEM") goals,²⁵ and recommended "linking the allowed RAM amount to certain measurable target performance goals and service reliability measures". DBEDT OB at 55. Blue Planet proposed a Clean Energy Utilization PIM which measures the annual improvement in the percentage of total energy requirements supplied by clean energy resources. See Blue Planet OB at 22-25. Even the Companies proposed a service quality index

²⁵ The revised NEM performance metrics were those performance measures that remained after DBEDT removed metrics associated with Energy Agreement initiatives that are still pending Commission approval.

benchmark for System Average Interruption Duration Index (“SAIDI”) in their Opening Brief to address the Commission’s concerns regarding service reliability if decoupling is implemented.²⁶ These various performance metrics have not been discussed among the parties in any detail.

As discussed in the Companies’ Reply Brief, HDA’s recommendation for the submission and review of an HCEI “master plan” is well-intentioned but should be rejected, as the instant docket is not an appropriate venue for such a review. The proper venue to review demand and supply resource elements in the Energy Agreement is Clean Energy Scenario Planning (“CESP”).

In an Order Initiating Investigation (“OII”), filed on May 14, 2009, the Commission opened Docket No. 2009-0108 to examine proposed amendments to the integrated resource planning (“IRP”) Framework (“IRP Framework”)²⁷ as proposed by the Hawaiian Electric Companies, Kauai Island Utility Cooperative (“KIUC”), and the Consumer Advocate in a letter dated and filed on April 28, 2009. In the letter, the Hawaiian Electric Companies, KIUC, and the Consumer Advocate requested that a CESP Framework be established to institute a “. . . planning process to develop generation and transmission resource plan options for multiple 20-year planning scenarios . . . [and] the development of a 5-year Action Plan based on the range of resource needs identified through the various scenarios analyzed.” OII at 2.

The goal of CESP that was agreed to by parties to the Energy Agreement (see Energy Agreement Initiative No. 33) is to develop such scenarios and action plans, “balancing how the utility will meet clean energy objectives, customers’ expected energy needs, and protecting

²⁶ “Given the development of reliability standards is to be initiated in the FiT docket,” HREA recommended in paragraph 2 of its Post-Hearing Reply Brief that “consideration of any utility reliability standard with respect to decoupling be postponed pending the outcome of the directed activity on the FiT docket”

²⁷ The IRP Framework was adopted by the Commission by Decision and Order No. 11630 (May 22, 1992) in Docket No. 6617, amending and reissuing the IRP Framework adopted in Decision and Order No. 11523 (March 12, 1992).

system reliability at reasonable costs under various scenarios.”²⁸ The Commission’s role as proposed in the CESP Framework is to –

determine whether the utility’s CESP scenarios and CESP Action Plan represents a reasonable course for meeting the energy needs of the utility’s customers, is in the public interest, is consistent with this Clean Energy Scenario Planning Framework, and provides strategic guidance for future utility planning to achieve Hawaii’s clean energy future based on the HCEI Energy Agreement.²⁹

The decoupling docket, by contrast, was opened to “examine implementing a decoupling mechanism . . . that would modify the traditional model of rate-making for the HECO Companies by separating the HECO Companies’ revenues and profits from electricity sales.”³⁰ This docket’s scope is very narrow compared to the CESP Framework and should not be broadened as requested by HDA.

The Hawaiian Electric Companies and the Consumer Advocate have addressed the parties’ performance metric-related concerns through modifications (including the requirement discussed in the Companies’ Opening Brief that the Companies provide a detailed status report on selected clean energy initiatives as part of the Companies’ testimonies and exhibits in the next cycle of rate cases)³¹ already incorporated in the Joint Decoupling Proposal, as is addressed in the Companies’ Reply Brief.

At the same time, however, the Companies remain willing to continue the dialogue with the other parties regarding the linkage between accomplishment of RPS goals or commitments in the Energy Agreement to decoupling, as all parties will then be in a better position to address this issue in time for Hawaiian Electric’s next rate case.³²

²⁸ OII, Exhibit A, Attachment 1 at 4.

²⁹ Id.

³⁰ OII, Docket No. 2008-0274, filed October 24, 2008 at 1.

³¹ See HECO OB at 3-4, 26, 43, 46, 76-82.

³² See discussion in Section II.D.2 (HCEI Performance Metrics) of the Companies’ Reply Brief. The

As stated in their Reply Brief, the Hawaiian Electric Companies “generally support the adoption of some type of broad-based clean energy performance incentive mechanism in this proceeding, subject to agreement on the specific mechanism and its details” and “are willing to continue the dialogue with the other parties to discuss the performance incentive mechanism (‘PIM’) such that the Commission may defer a decision on the PIM until the issue is thoroughly evaluated by the parties.” HECO RB at 79-80.

To that end, notwithstanding the fact that “the Consumer Advocate does not support indefinite continuation of this Docket”,³³ the Companies request that this proceeding be continued for the primary purpose of evaluating the design and adoption of clean energy-related decoupling performance metrics, with final statements of position to be filed by the parties no later than June 30, 2010. With the continuation of the docket, the consideration of some specific type of PIM is an important topic that should be further investigated, and will allow the parties more time to gather and share information regarding the actual decoupling and RAM implementation experience, and to review and develop appropriate metrics that would enhance decoupling, including the RBA and RAM in the future.

A possible schedule of activities to address performance metrics issues is as follows:

- (1) Technical workshop to be held before the end of the year on performance metrics;
- (2) Review of the RBA and RAM filing process to take place with parties (either meeting or conference call) sometime in March/April 2010 (the RAM for 2010 is proposed to be

positions of the other parties with respect to the need for and benefits of decoupling are further addressed in Sections I.B, II.B.2 (Sales Decoupling), II.B.3 (Revenue Adjustment Mechanism), and II.B.5 (Other Decoupling Mechanisms) of the Companies’ Reply Brief.

³³ CA RB at 33. The Consumer Advocate explained that while it “may support some of the objectives” identified by HDA for continued consideration in this proceeding, “[t]he issues and concerns raised by HDA and the other parties have been thoroughly addressed in this Docket” (*id.*), and “to the extent these issues are not specifically resolved by a final order of the Commission, the Consumer Advocate intends to examine them as part of the scheduled next review of decoupling, but this does not require the instant proceeding to remain open indefinitely” (*id.* at 34).

filed by March 31, 2010);

- (3) Review of customer education communications to take place with parties (either meeting or conference call) sometime in early June 2010 (billing of the RBA and RAM is proposed to commence on June 1, 2010); and
- (4) Filing of statements of position by the parties no later than June 30, 2010, so that they can be “incorporated” or referenced in the Hawaiian Electric 2011 test year rate case.³⁴

In its Reply Brief, Blue Planet also requested that the Commission consider issuing an interim decision and order, directing the parties to seek agreement on an amended procedural

³⁴ To further clarify the Companies’ proposal, the Companies contemplate that if the Commission issues an interim decision and order in this docket by the end of 2009 approving the Companies’ RBA and RAM (as well as the continuation of the docket):

1. Hawaiian Electric’s RBA (and RAM for 2010) would be implemented immediately.
2. This docket would continue as requested by the Companies and Blue Planet;
3. Hawaiian Electric’s RAM filing for calendar year 2010 would be submitted on March 31, 2010, and implemented on June 1, 2010.
4. The parties would either stipulate to a settlement on the PIM and other outstanding issues, to be proposed to the Commission, or file separate statements of position by June 30, 2010.
5. Hawaiian Electric would file a 2011 test year rate case application no later than the mid-August 2010 timeframe with the issue of the continuation of decoupling included as a rate case issue.
6. The Commission would issue its final decision and order in this docket on outstanding issues such as the PIM in the October-December 2010 timeframe, which the Companies would then implement (this assumes that the Commission will allow the continuation of the RBA and RAM for the Companies until an interim decision and order is issued in Hawaiian Electric’s 2011 test year rate case).
7. In the August 2010 timeframe, MECO would implement its RBA pursuant to an interim decision and order issued in MECO’s 2010 test year rate case.
8. In the October 2010 timeframe, HELCO would implement its RBA pursuant to an interim decision and order issued in its 2010 test year rate case.
9. On March 31, 2011, Hawaiian Electric, MECO and HELCO would file their 2011 RAM filings for calendar year 2011, which would be implemented on June 1, 2011.
10. In the July 2011 timeframe, the Commission would issue an interim decision and order in the Hawaiian Electric 2011 test year rate case, including a determination as to whether decoupling will continue. If the Commission were to determine that decoupling should not continue, HELCO and MECO would withdraw their RBA and RAM tariff provisions and refund (with interest) any 2011 RAM revenues collected up to that point. If the Commission determines that the RBA and RAM should continue, then all three companies will continue as planned in the Joint Decoupling Proposal with either MECO or HELCO (depending on their comparative need for rate relief) filing a 2012 test year rate case application and the other company (MECO or HELCO), filing a 2013 test year rate case application.

schedule to include at least one technical session on PIMs and submission of statements of position by the parties regarding the PIM.³⁵ See Blue Planet RB at 12. HREA in its Reply Brief reiterated its concurrence with HDA's recommendation "that the Commission direct the Parties to come back at a later time with a recommended performance metric, rather than delaying the docket process further at this point". See HREA RB at 4. Although HSEA stated that some form of performance incentive metric should be a "quid pro quo" for the establishment and implementation of the RAM and that "it is not appropriate to proceed with individual elements of decoupling without commitments to all of them", HSEA also stated that it "does not object in principle to the idea of clarifying and accelerating the utility's ability to recover costs through the RAM or to the idea of devoting additional time to devising an appropriate PIM". See HSEA RB at 2-3.

F. ESTABLISHMENT OF INTERIM PERFORMANCE INCENTIVE MECHANISM FOR HAWAIIAN ELECTRIC

In their Reply Brief, the Hawaiian Electric Companies indicated that they are willing to continue the dialogue with the other parties regarding the linkage between accomplishment of RPS goals and decoupling as long as both award and penalty provisions are included in the performance incentive mechanism and the performance incentive mechanism is consistent with the RPS law as amended by Act 155 (2009). Therefore, the Companies now generally support the adoption of some type of broad-based clean energy PIM in this proceeding, subject to agreement on the specific mechanism and its details. See HECO RB at 79.

Subsequent to the filing of the Reply Briefs and in an effort to demonstrate good faith regarding their commitment above, the Hawaiian Electric Companies continued discussions with

³⁵ As noted above, Blue Planet's recommendations regarding the RBA and RAM are predicated on the imposition of certain conditions related to the PIM and other issues.

one of the other parties in the docket on an interim performance metric (“IPM”). As a result of those discussions, the Companies are proposing an IPM in the instant Motion.³⁶ The IPM would apply to Hawaiian Electric’s 2011 RAM and terminate when the interim decoupling mechanism terminates. The 40 MW performance metric discussed below is only for Hawaiian Electric. Interim approval of a the IPM would give the parties and the Commission an opportunity to evaluate the performance metric or PIM concept.

The IPM target is 40 MW of new renewable energy procured by Hawaiian Electric between November 30, 2009 and December 31, 2010, through the various procurement methods including power purchase agreements (“PPA”), NEM, Schedule Q, and/or Feed-In Tariffs (“FIT”) when approved by the Commission. The new renewable energy that will count towards the performance metric of 40 MW shall include those with fully executed PPAs filed with the Commission for approval including Schedule Q and FIT contracts, and new NEM systems reported by the utility in its annual NEM Report to the Commission.

The 2011 RAM amount that the utility may recover would be based on the proportion of the total MW of new renewable energy procured to the total metric of 40 MW. For example, if Hawaiian Electric executed and filed renewable energy purchase contracts for 30 MW between November 30, 2009 and December 31, 2010, the metric would be 0.75 (= 30 MW ÷ 40 MW). Hawaiian Electric would therefore recover only 0.75, or three-quarters, of its calculated 2011 RAM.

The total 2011 RAM amount that the utility may recover could not exceed the total calculated RAM amount in Hawaiian Electric’s tariff. In other words, for purposes of the interim decoupling mechanism, the metric adjustment cannot exceed unity (metric adjustment

³⁶ Declaration of Colton Ching, para. 4.

cannot be greater than one). For example, if Hawaiian Electric executed and filed renewable energy purchase contracts for 50 MW during the same period, the metric would be calculated as $(50 \text{ MW} \div 40 \text{ MW} =) 1.25$. However, under the IPM proposal, the metric cannot exceed unity. Therefore, even if the IPM metric equaled 1.25, Hawaiian Electric would recover only 1.00 times its 2011 RAM.

The 2011 RAM amount adjusted by the IPM would be included in the 2011 RBA as described in the RBA tariff.

The IPM target will help the Hawaiian Electric Companies' compliance with the RPS law as amended by Act 155 (2009) and will not serve as a "cap" on the Companies' efforts to add and integrate renewable energy to the system. Renewable energy resources will be as defined as "Renewable Electrical Energy" in HRS § 269-91. Also, the agreement to the design and implementation of the IPM by the Hawaiian Electric Companies should not be viewed as the Companies' position on the design and implementation of a permanent performance metric PIM.³⁷ As proposed in the instant Motion, discussion of the permanent performance metric or PIM should take place with the continuation of the instant docket.

G. INTERIM IMPLEMENTATION OF DECOUPLING

The Companies' interim RBAs that are established and the interim RAMs that will be implemented, if approved by the Commission as requested in this Motion, will either be continued, modified or terminated with the issuance of final decision and orders in the Companies' 2009 (Hawaiian Electric) and 2010 (MECO and HELCO) test year rate cases or the issuance of a final decision and order in the instant docket. As stated in the Joint Decoupling Proposal and the proposed RBA and RAM tariff provisions (Attachments 1-6 to the Motion), the

³⁷ Declaration of Colton Ching, para. 5.

Companies' target revenues will be based on Authorized Base Revenues and ratemaking conventions and calculations approved by the Commission in its most recent rate case decision and order.

In the case of Hawaiian Electric, its 2009, 2010 and 2011 target revenues (including RAM revenue adjustments) initially will be based on the *Interim Decision and Order* issued on July 2, 2009, in Hawaiian Electric's 2009 test year rate case, Docket No. 2008-0083. On November 19, 2009, Hawaiian Electric filed a *Motion for Second Interim Increase for CIP CT-1 Revenue Requirements, or in the Alternative, to Continue Accruing AFUDC for the CIP CT-1 Project* in Docket No. 2008-0083. Thus, if the Commission approves that motion and issues a second interim decision and order in that proceeding, the second interim decision and order will be the most recent rate case decision and order in that docket. As a result, Hawaiian Electric's target revenues for 2009 through 2011, including RAM revenue adjustments, would be increased to reflect the authorized base revenues approved in the second interim decision and order, effective on the date that the second interim decision and order is issued. Similar to what would occur even without the issuance of a second interim decision and order, these interim target revenues would be modified when the Commission issues a final decision and order in Hawaiian Electric's 2009 test year rate case and a final decision and order in the instant proceeding.

If the final decision and order is issued in the 2009 test year rate case before the final decision and order in the instant proceeding, the interim target revenues would once again be modified to reflect the authorized base revenues in the final decision and order. Hawaiian Electric would recalculate what the interim target revenues would have been as if the final decision and order had been in place from the effective date of the interim target revenues. If the difference between the total interim target revenues collected and recalculated interim target

revenues shows that Hawaiian Electric “overcollected” interim target revenues, the difference will be refunded to customers with interest. If, however, the difference shows that Hawaiian Electric “undercollected” interim target revenues, no billing adjustment will be made for the target revenues collected in prior period(s).³⁸ The Companies have reflected this proposed treatment of target revenues that are initially based upon interim decision and orders issued in rate cases, then updated for final decision and orders that reflect different authorized base revenues, in the proposed Hawaiian Electric Interim RAM Tariff Provision (Attachment 2).

Upon issuance of the final decision and order in the instant proceeding, Hawaiian Electric will, as described above, recalculate what the interim target revenues would have been as if the final decision and order had been in place from the effective date of the interim target revenues. If the difference between the total interim target revenues collected and recalculated interim target revenues shows that Hawaiian Electric “overcollected” interim target revenues, the difference will be refunded to customers with interest. If, however, the difference shows that Hawaiian Electric “undercollected” interim target revenues, no adjustment will be made to the target revenues collected in prior period(s).³⁹ Until the final decision and orders are issued in both the 2009 test year rate case and the instant docket, the target revenues would be “interim” and subject to change for the period that they have been collected. Hawaiian Electric’s proposed Interim RBA Tariff Provision (Attachment 1) reflects the proposed treatment of the interim target revenues described above.

³⁸ Thus, if the revised target revenue is less than the authorized base revenue approved in the interim decision and order, Hawaiian Electric will re-calculate the RBA balance and the RBA interest owed to customers for every month since the interim decision. If the revised target revenue is more than the authorized base revenue approved in the interim decision, the revised target revenue RBA balance and RBA interest calculations will be adjusted going forward only, i.e., there will be no RBA balance and interest adjustments for undercollection of the revised target revenue for prior periods due to a higher target revenue.

³⁹ See footnote 38, *supra*.

Similar to Hawaiian Electric's situation, MECO and HELCO's interim target revenues will initially be based on the interim decision and orders issued in their 2010 test year rate cases, Docket Nos. 2009-0163 and 2009-0164, respectively. The same treatment of MECO's and HELCO's interim target revenues as described for Hawaiian Electric above is proposed by the Companies. Like Hawaiian Electric, the proposed treatment of interim target revenues is reflected in each company's proposed RBA and RAM tariff provisions (Attachments 3 and 4 for MECO and Attachments 5 and 6 for HELCO).

H. PRECEDENT FOR INTERIM ORDER

The Commission's authority to grant interim approval of the RBA and RAM in this docket is inherent in its express powers to regulate rates and supervise public utilities operating within the State, as conferred upon the Commission by Chapter 269, HRS. Although HRS § 269-16(d) provides the Commission with express authority to issue interim decisions in the context of rate cases, the Commission has authority to issue interim decisions even in the absence of express statutory authority to do so. Indeed, the Commission has in the past exercised its inherent authority to issue interim decisions in both (1) the rate case context, prior to the enactment of the interim decision provision set forth in HRS § 269-16(d), as well as (2) the context of matters beyond rate cases.

1. The Commission's General Powers

HRS § 269-6(a) vests the Commission with "the general supervision . . . over all public utilities. . . ." As amended by Act 177 (Haw. Sess. L. 2007), HRS § 269-6(b) provides that "[t]he public utilities commission may consider the need for increased renewable energy use in exercising its authority and duties" In addition, HRS § 269-7 provides, "The public utilities commission and each commissioner shall have power to examine into the condition of each

public utility, . . . and all matters of every nature affecting the relations and transactions between it and the public or persons or corporations.”

2. Interim Rate Case Decision and Orders Prior to HRS § 269-16(d)

The Supreme Court of Hawaii recognized the broad scope of the Commission’s authority over electric utilities in In re Kauai Electric Division of Citizens Utilities Company, 60 Haw. 166, 590 P.2d 524 (1978). In the Kauai Electric case, the County of Kauai (an intervenor) appealed a number of the Commission’s rulings in Kauai Electric’s 1975 test year rate case, including the Commission’s approval in Order No. 3852⁴⁰ of certain interim rate increases (conditioned on a refund provision) for Kauai Electric’s residential, general light and power, street lighting and large power consumers.

In challenging this ruling, the County of Kauai argued that the Commission had no power under HRS § 269-16(c) to issue interim orders, or that if it did have such power, the power constituted an impermissible delegation of legislative power. See id. at 168, 590 P.2d at 528. The supreme court disagreed, holding that: “The Commission’s authority to grant interim rate increases conditioned on a refund provision is necessarily implied from the express authority to regulate rates and supervise public utilities operating within the State.” Id. at 166, 590 P.2d at 527. As explained by the supreme court:

The language of the statute grants to the Commission broad discretionary power in the area of rate regulation, providing that the procedural mandates of notice and public hearings are met, and providing that rates set are “just and reasonable.” There is nothing in the statute which evidences a legislative purpose to confine the Commission to making final orders only. Other jurisdictions have held that the power to issue interim orders is necessarily implied from the express ratemaking power granted to public utilities commissions. Some jurisdictions have implied the commission’s authority to issue interim orders from the express power to suspend rates.

⁴⁰ See Decision and Order No. 3852, filed October 1, 1979 in Docket No. 2402.

In our opinion, the Commission's authority to grant interim rate increases conditioned on a refund provision is necessarily implied from the express authority to regulate rates and supervise public utilities operating within the State, and is to be implied from the express authority granted the Commission under HRS § 269-16 to "do all things . . . which are necessary and in the exercise of such power and jurisdiction all of which as so ordered, regulated, fixed, and changed shall be just and reasonable."

* * *

. . . The "just and reasonable" standard has been upheld as constitutionally permissible, even though no specific formula for determining that which is just and reasonable has been statutorily set.

Id. at 179-81, 590 P.2d at 534-35 (citations omitted).

3. Interim Orders in Non-Rate Case Dockets

The Commission has also exercised its authority to issue interim decisions in matters other than rate cases. For example, the Commission has granted interim approvals for (1) commitments of expenditures, pursuant to Paragraph 2.3(g)(2) of G.O. 7,⁴¹ (2) fuel contracts (and to include costs incurred pursuant to the contracts in ECACs, pursuant to HAR § 6-60-6), and (3) a PPA (and to include purchased energy costs incurred pursuant to the PPA in an ECAC pursuant to Hawaii Administrative Rules ("HAR") § 6-60-6, and to recover firm capacity payments through a firm capacity surcharge pursuant to HRS § 269-27.2 and § 269-16).

a. Commitments of Expenditures

In Interim Order No. 23544, issued July 13, 2007 in Docket No. 2007-0124, the Commission granted HELCO's request for interim approval "to permit HELCO to commit funds and, if necessary, to start the installation for [the Waimea-Kawaihae Reconductor 7300 Line Project] prior to receiving a Commission determination that the reconducted and reinforced 69 kV transmission line be constructed above the surface of the ground pursuant to HRS § 269-

⁴¹ *Standards for Electric Utility Service in the State of Hawaii*, as modified by Docket No. 03-0257, Decision and Order No. 21002 (May 27, 2004).

27.6(a).”⁴² In finding HELCO’s request “to be reasonable and in the public interest”, the Commission noted, among other things, HELCO’s representations that: (1) the 7300 Line had been at risk for an overload of about 20% of its emergency rating; (2) there were immediate and long-term needs for eliminating the overload risk; (3) a transmission overload study had recommended that the 7300 Line be reconductored immediately; (4) reconductoring the 7300 Line would allow for increased acceptance of renewable energy; (5) interim approval would help HELCO to address the long lead time associated with the ordering of wooden poles; (6) HELCO’s understanding that the interim decision would not affect the Commission’s final decision on the project;⁴³ and (7) that the Consumer Advocate did not object to HELCO’s request for interim approval. See Interim Order No. 23544 at 2-4. On July 24, 2008, the Commission issued a similar Order Granting Interim Approval in Docket No. 2008-0060, which granted a substantially similar request by HELCO for interim relief with respect to HELCO’s Waimea-Keamuku 7200 Line Reconductor Project.⁴⁴

In another instance, the Commission approved a request by Hawaiian Electric in Docket No. 2007-0409, to deviate from the requirement set forth in Paragraph 2.3(g)(2) of G.O. 7, , that Hawaiian Electric file a G.O. 7 project application at least 60 days prior to the commencement of construction or commitment for the expenditure of funds for Hawaiian Electric’s Barbers Point Fuel Oil Tank Renovation Project. In support of its request, Hawaiian Electric explained, among other things, that “[t]he loss of one-third of HECO’s central low sulfur fuel oil (“LSFO”) storage

⁴² HELCO’s Application, filed May 11, 2007 in Docket No. 2007-0124, at 15-16.

⁴³ The Commission accordingly ordered that, “In the event the commission ultimately does not approve HELCO’s Application on the merits, HELCO shall not seek to recover its share of the costs for the Project from its ratepayers.” Interim Order No. 23544 at 6, para. 3.

⁴⁴ In a similar instance, the Commission granted similar interim relief (i.e., approval to proceed with an electric transmission project prior to receiving final commission approval under HRS § 269-27.6(a)), pursuant to a request submitted by HELCO in the form of a letter filed prior to the filing of an application. See Interim Order No. 22597, issued July 12, 2006 in Docket No. 2006-0181 (i.e., HELCO’s application regarding its Kealakaha Bridge 69 kV Line Relocation Emergency Request).

capacity (i.e., Tank 131 out of service) limits HECO's ability to optimize LSFO inventories, to effectively schedule LSFO receipt and transfer operations, and to respond to and mitigate supply disruptions and receipt of off-specification LSFO.”⁴⁵

In Order No. 23915, issued December 20, 2007 in Docket No. 2007-0409, the Commission found “good cause to approve” Hawaiian Electric’s request, and permitted Hawaiian Electric “to commit funds for the Project earlier than the sixty days following the filing of its Application.” Id. at 6. The Commission added:

Concomitantly, the commission notes that this order does not constitute a decision on the merits of HECO’s Application. HECO acknowledges that if the commission does not approve the Application, “HECO will have the burden of proof to justify the reasonableness of the capital expenditures in its next rate case.”

Id. at 7.

b. Fuel Contracts

In Interim Decision and Order No. 9608, issued December 30, 1987 in Docket No. 6052 (“Interim D&O 9608”), the Commission approved, on a temporary basis pending the effective date of a final order issued in the docket, the inclusion of all of the costs for fuel oil, transportation, and related taxes incurred pursuant to the contracts and arrangements by which the Hawaiian Electric Companies sought to purchase Industrial Fuel Oil No. 6 and Diesel Fuel No. 2 from Chevron U.S.A. Inc. (“Chevron”) in the Hawaiian Electric Companies’ respective fuel clauses (“1988 Chevron Contract”).⁴⁶ The Commission granted similar interim approval of a subsequent contract between the Companies and Chevron providing for the purchase of fuel by

⁴⁵ Hawaiian Electric’s Application, filed December 11, 2007 in Docket No. 2007-0409 at 10.

⁴⁶ The Commission issued final Decision and Order No. 9806 approving the 1988 Chevron Contract on June 27, 1988 (“D&O 9806”). The 1988 Chevron Contract became effective on January 1, 1988. However, since the Companies were unable to obtain an executed contract until December 16, 1987, the application for approval of the contract was not filed until December 22, 1987, thus giving rise to the Companies’ request for interim relief. See D&O 9806 at 2.

the Companies from Chevron and for the use of Chevron's handling, storage and distribution facilities ("1990 Chevron Contract") in Interim Decision and Order No. 10435, issued December 27, 1989 in Docket No. 6576 ("Interim D&O 10435").⁴⁷

c. Power Purchase Agreement

In Interim Decision and Order No. 7663, issued on March 3, 1993 in Docket No. 12277 ("Interim D&O 7663"), the Commission granted interim approval of the March 31, 1993 interim PPA between HELCO and the bankruptcy trustee appointed in connection with the Hamakua Sugar Company, Inc. ("Hamakua") bankruptcy case⁴⁸ ("Interim PPA"). The purpose of the Interim PPA was to supersede, on a temporary and emergency basis, the then-existing PPA between Hamakua and HELCO, so that the power plant that was being operated by Hamakua at the time could continue to generate power on the Big Island. Accordingly, HELCO filed an application on March 31, 1993, requesting that the Commission approve: (1) the Interim PPA; (2) inclusion of the purchased energy costs incurred by HELCO under the Interim PPA (and related revenue taxes) in its ECAC pursuant to HAR § 6-60-6(2); and (3) recovery of additional firm capacity payments to the bankruptcy trustee under the Interim PPA (and related revenue taxes) through a surcharge pursuant to HRS §§ 269-27.2 and 269-16. See Interim D&O 7663 at 1-2.

In approving HELCO's request, the Commission found "that HELCO has an urgent and immediate need for the capacity to be provided by the Hamakua power plant under the Interim PPA." Id. at 3. The Commission pointed out that "since the agreement is on a month-to-month basis, HELCO may terminate the Interim PPA upon proper notice, should the commission later

⁴⁷ The Commission issued final Decision and Order No. 10954 approving the 1990 Chevron Contract on January 31, 1991 ("D&O 10954"). Interim D&O 10435 is discussed on pages 1-2 of D&O 10954.

⁴⁸ See In re Hamakua Sugar Co., Case No. 92-00865 (Bankr. D. Haw.).

conclude that the continued operation of the Interim PPA is unreasonable.” Id. at 4. The Commission added:

Further, it appears reasonable, on an interim basis, to allow HELCO to (1) include its purchased energy costs (that is, the costs of the fuel oil and consumable items to be provided to Trustee under the Interim PPA), and related revenue taxes, in its energy cost adjustment clause and (2) recover its additional firm capacity payments to Trustee under the Interim PPA, and related revenue taxes, through a surcharge, to the extent that such costs are not included in HELCO’s base rates, effective from April 1, 1993, to April 30, 1993, unless sooner superseded by a final decision and order in this proceeding.

Id.

IV. CONCLUSION

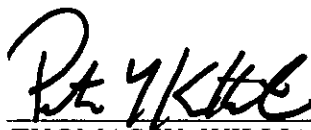
Based on the foregoing and the entire record herein, the Hawaiian Electric Companies respectfully request that the Commission issue interim approval of:

- (1) the establishment and implementation by Hawaiian Electric of the RBA (with a slight modification, as shown in Attachment 1 to the Motion, to include only one RBA account for all residential and nonresidential customers) to be effective January 1, 2010;
- (2) the establishment and implementation by Hawaiian Electric of the RAM (with modifications, as shown in Attachment 2 to the Motion, (a) to refund to ratepayers (with interest) RAM revenues associated with disallowed costs for Baseline Capital Projects, and (b) to include an interim performance metric as described in Part III.F of this memorandum) to be effective, beginning with calendar year 2010;
- (3) both the Hawaiian Electric RBA and RAM to remain in effect until interim rates become effective pursuant to an interim decision and order in Hawaiian Electric’s 2011 test year rate case, provided that Hawaiian Electric:
 - (a) does not file a 2010 test year rate case application, and
 - (b) files its 2011 test year rate case application by August 16, 2010;

- (4) implementation by HELCO and MECO of the RBA and RAM (with slight modifications, as shown in Attachments 3-6 to the Motion) at such time as interim rates become effective pursuant to interim decision and orders in HELCO's and MECO's respective 2010 test year rate cases; and
- (5) the continuation of this proceeding for the primary purpose of evaluating the design and potential adoption of clean energy-related decoupling performance metrics, with final statements of position to be filed by the parties no later than June 30, 2010.

It is essential and in the public interest that the Hawaiian Electric Companies be allowed to implement decoupling at this time. The immediate issuance of an interim approval of the RBA and RAM for the Hawaiian Electric Companies along with the continuation of this docket will provide the Companies an opportunity to improve their financial health through a stabilization of revenues; remove financial disincentives associated with conservation, energy efficiency, and customer-sited DG; and allow the parties more time to gather and share information regarding the actual decoupling and RAM implementation experience, and to review and develop appropriate metrics that would enhance decoupling, including the RBA and RAM, in the future.

DATED: Honolulu, Hawaii, November 25, 2009.



THOMAS W. WILLIAMS, JR.

PETER Y. KIKUTA

Attorneys for

HAWAIIAN ELECTRIC COMPANY, INC.,

HAWAII ELECTRIC LIGHT COMPANY, INC., and

MAUI ELECTRIC COMPANY, LIMITED

DECLARATION

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF HAWAII

In the Matter of

PUBLIC UTILITIES COMMISSION

Instituting a Proceeding to Investigate
Implementing a Decoupling Mechanism for
Hawaiian Electric Company, Inc., Hawaii Electric
Light Company, Inc., and Maui Electric Company,
Limited

DOCKET NO. 2008-0274

DECLARATION OF COLTON CHING

1. I, Colton Ching, am Manager of the Corporate Planning Department for Hawaiian Electric Company, Inc. ("Hawaiian Electric"). I make this declaration based upon my own personal knowledge and upon information and belief gained in that capacity, and in support of the accompanying motion.

2. My business address is 900 Richards Street, Honolulu, Hawaii.

3. I have been and continue to be directly involved in and/or am familiar with Hawaiian Electric's dialogue with the other parties regarding the linkage between accomplishment of renewable portfolio standards goals as amended by Act 155 (2009) and decoupling.

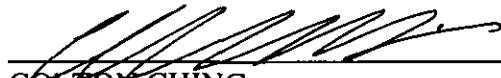
4. Subsequent to the filing of the Reply Briefs and in an effort to demonstrate good faith regarding their commitment to continue the dialogue above, Hawaiian Electric, Hawaii Electric Light Company, Inc. and Maui Electric Company, Limited continued discussions with one of the other parties in the docket on an interim performance metric. As a result of those discussions, the Companies are proposing an

interim performance metric in the instant motion.

5. The agreement to the design and implementation of the interim performance metric by the Hawaiian Electric Companies should not be viewed as the Companies' position on the design and implementation of a permanent performance metric or performance incentive mechanism.

I declare under penalty of perjury that the foregoing is true and correct.

DATED: Honolulu, Hawaii, November 25, 2009.


COLTON CHING

SHEET NO.

Effective January 1, 2010

INTERIM REVENUE BALANCING ACCOUNT PROVISION

Supplement To:

Schedule R - Residential Service
Schedule E - Electric Service For Employees
Schedule G - General Service Non-Demand
Schedule J - General Service Demand
Schedule H - Commercial Cooking, Heating, Air
Conditioning, and Refrigeration Service
Schedule PS - Large Power Secondary Voltage Service
Schedule PP - Large Power Primary Voltage Service
Schedule PT - Large Power Transmission Voltage Service
Schedule F - Public Street Lighting, Highway Lighting
and Park and Playground Floodlighting
Schedule U - Time of Use Service
Schedule TOU-R - Residential Time-of-Use Service
Schedule TOU-C - Commercial Time-of-Use Service
Schedule SS - Standby Service

All terms and provisions of Schedules R, E, G, J, H, PS, PP, PT, F, U, TOU-R, TOU-C, and SS are applicable except that the total base rate charges for each billing period shall be adjusted by the Revenue Balancing Account Rate Adjustments shown below:

A: PURPOSE:

The purpose of the Revenue Balancing Account ("RBA") is to record: 1) the difference between the Hawaiian Electric Company's (HECO's) target revenue and recorded adjusted revenue, and 2) monthly interest applied to the simple average of the beginning and ending month balances in the RBA. In addition, the recovery provision of this tariff provides for collection or return of the calendar year-end balance in the RBA and recovery of the RAM Revenue Adjustment provided in the Rate Adjustment Mechanism ("RAM") Provision over the subsequent June 1st through May 31st period. The RBA is effective on January 1, 2010, and established in accordance with the Commission interim order in Docket No. 2008-0274.

If the final order in Docket No. 2008-0274 does not approve the establishment of a decoupling mechanism (including the establishment of an RBA), all revenues collected under the RBA Provision per the interim order will be refunded to customers with interest at the rate noted in Section C below. Upon issuance of the final order in Docket No. 2008-0274, the interim target revenues will be recalculated to determine what they would have been if the final decision and order had been in place from the effective date of the interim target revenues. If the difference between the total interim target revenues

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INTERIM REVENUE BALANCING ACCOUNT ("RBA") PROVISION

collected and recalculated interim target revenues shows that the interim target revenues were over-collected, the difference will be refunded to customers with interest.

B: TARGET REVENUE:

For the purpose of the RBA, the target revenue is the most recent Authorized Base Revenue approved by the Public Utilities Commission (PUC), plus or minus the RAM Revenue Adjustment calculated under the RAM Provision, adjusted to remove amounts for applicable revenue taxes. The target revenue will exclude revenue for fuel and purchased power expenses that are recovered either in base rates or in a purchased power adjustment clause and all revenue being separately tracked or recovered through any other surcharge or rate tracking mechanism.

If a subsequent interim decision or a final decision in a rate case is ordered by the Commission that supersedes the interim decision that is the basis for the target revenue for the test year and RAM period(s) since the last rate case, or if a final decision is ordered by the Commission that supersedes the interim decision in Docket No. 2008-0274, the target revenue will be adjusted as if the final decision had been in place from the effective date of the interim target revenues. If the difference between the total interim target revenues collected and recalculated interim target revenues shows that Hawaiian Electric "over-collected" interim target revenues, the difference will be refunded to customers with interest. If, however, the difference shows that Hawaiian Electric "under-collected" interim target revenues, no adjustment will be made to the target revenues collected in prior period(s).

The target revenue shall be revised to correct for any errors in the calculation of the RAM Revenue Adjustment for any previous period to the extent that such errors are identified 15 days prior to the Annual implementation date specified in the RAM Provision.

Monthly Allocation Factors for the Target Revenue are as follows:

| | |
|-----------|-------|
| January | 7.98% |
| February | 7.30% |
| March | 8.04% |
| April | 7.87% |
| May | 8.34% |
| June | 8.36% |
| July | 8.69% |
| August | 9.05% |
| September | 8.80% |
| October | 8.90% |
| November | 8.33% |

HAWAIIAN ELECTRIC COMPANY, INC.

INTERIM REVENUE BALANCING ACCOUNT ("RBA") PROVISION

| | |
|----------|--------------|
| December | <u>8.34%</u> |
|----------|--------------|

| | |
|-------|---------|
| Total | 100.00% |
|-------|---------|

These factors are based on the MWh sales forecast approved by the Commission in HECO's test year 2009 rate case and shall be updated in any subsequent test year rate case.

C: BALANCING ACCOUNT ENTRIES:

Entries to the RBA will be recorded monthly. A debit entry to the RBA will be made equal to the target revenue as defined in Section B. above, times the appropriate monthly allocation factor in the table above. A credit entry to the RBA will be made equal to the recorded adjusted revenue. The recorded adjusted revenue is defined to include the electric sales revenue from authorized base rates, plus revenue from any authorized interim rate increase, plus revenue from any RBA rate adjustment, but excluding revenue for fuel and purchased power expenses, IRP/DSM, any Commission Ordered one-time rate refunds or credits or other surcharges, and adjusted to remove amounts for applicable revenue taxes.

Interest will be recorded monthly to the RBA by multiplying the simple average of the beginning and ending month balance in the RBA times the Interest Rate divided by 12. The Interest Rate shall be 6 percent.

D: RECOVERY OF BALANCING ACCOUNT AMOUNTS:

At the Annual Evaluation Date provided in the Rate Adjustment Mechanism Provision, the Company will file with the Commission a statement of the previous calendar year-end balance in the RBA and the RAM Revenue Adjustment for the current calendar year, along with supporting calculations. Both an amortization of the previous calendar year-end balance in the RBA, adjusted for any Earnings Sharing Revenue Credits or Major Capital Projects Credits or Baseline Capital Projects Credits and the RAM Revenue Adjustment will be recovered through a per-kWh RBA rate adjustment, over the 12 months from June 1 of the current calendar year to May 31 of the succeeding calendar year.

E: REVENUE BALANCING ACCOUNT RATE ADJUSTMENTS:

The RBA rate adjustments are comprised of the calculated values from Section D above, adjusted to include amounts for applicable revenue taxes. The RBA rate adjustment is calculated based on the Company's forecast of MWh sales over the RBA rate adjustment recovery period.

Effective

RBA Adjustment

| | |
|-------------------------|--------------|
| All Rate Schedules..... | 0.0000 ¢/kWh |
|-------------------------|--------------|

HAWAIIAN ELECTRIC COMPANY, INC.



4



INTERIM RATE ADJUSTMENT MECHANISM PROVISION

Interim Rate Adjustment Mechanism ("RAM") Provision

Purpose

This mechanism is subject to review and continuation, termination or modification in the utility's next base rate case proceeding, upon a showing by the utility and finding by the Commission that continuation or modification is appropriate. As part of its submitted testimony in the base rate case, the Company will include a summary report on the status of certain HCEI initiatives. The RAM mechanism is designed to determine the change in annual utility base revenue levels, recognizing certain estimated changes in the utility's cost to provide service. If, through the application of this mechanism, it is determined that annual utility base revenues should be decreased or increased, then the RAM Revenue Adjustment will be applied within the Revenue Balancing Account ("RBA") Provision. The RAM Revenue Adjustment established for RAM Period calendar year 2011 shall remain in effect until the Commission approves a base revenue level in the Company's 2011 test year rate application.

Definitions

- a) The **Annual Evaluation Date** shall be the Date the Company will make its annual filing under this mechanism. The Annual Evaluation Date shall be no later than March 31, of each year commencing March 31, 2010.
- b) The **Evaluation Period** is defined as the historical twelve month period ending December 31, of each calendar year preceding the Annual Evaluation Date. The Evaluation Period is used solely to determine achieved earnings and any sharing of such earnings above the Authorized Return on Equity.
- c) The **RAM Period** is defined as the calendar year containing the Annual Evaluation Date.
- d) The **Labor Cost Escalation Rate** shall be the applicable annual percentage general wage rate increase provided for in HAWAIIAN ELECTRIC COMPANY, INC.

INTERIM RATE ADJUSTMENT MECHANISM PROVISION

currently effective union labor agreements for use in escalating wage and salary Base Expenses for both union and non-union employees to determine the RAM Revenue Adjustment for each RAM Period. In the event no union labor agreement exists for a RAM Period, the most recently effective annual general percentage increase rate shall apply.

e) The **Non-labor Cost Escalation Rate** shall be the consensus estimated annual change in the Gross Domestic Product Price Indicator ("GDPPI") to escalate non-labor Base Expenses to determine the RAM Revenue Adjustment for each RAM Period. The GDPPI escalation rate shall be the consensus projection published by the Blue Chip Economic Indicators (Aspen Publishing) each February for the current Rate Adjustment Period. In the event that the Blue Chip Economic Indicators forecast of the GDPPI is not available, the Consumer Advocate, Company, and other parties to the most recent rate case, with approval of the Commission, shall jointly select an alternative data source, or national economic index similar to GDPPI, as appropriate.

f) The annual **Labor Productivity Offset** shall be fixed at 0.76 percent (76/100 of one percent) and will be subtracted from the Labor Cost Escalation Rates applicable to Base Expenses to determine the authorized RAM Revenue Adjustment for each RAM Period.

g) The **Base Expenses** shall be the labor and non-labor operations and maintenance expense amounts approved by the Commission in the most recently completed rate case where the test year was the Evaluation Period, or alternatively as approved by the Commission for the immediately preceding year Rate Adjustment Mechanism results if the Evaluation Period was not a test year. Base Expenses shall not include any fuel, purchased power, IRP/DSM, pension, Other Post Employment Benefits ("OPEB"), or Clean Energy/Renewable Energy Infrastructure costs that are subject to recovery through separate rate tracking mechanisms.

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INTERIM RATE ADJUSTMENT MECHANISM PROVISION

h) The **Major Capital Projects** shall be those capital investment projects that require application and Commission approval under the Commission's General Order No. 7, but excluding those projects included in the Clean Energy Infrastructure Surcharge.

i) The **Baseline Capital Projects** shall be the total amounts of capital investment completed and closed to Plant in Service, excluding amounts related to Major Capital Projects.

j) The **Return on Investment** shall be the overall weighted percentage rate of return on debt and equity capital approved by the Commission in the most recently completed rate case.

k) The **Authorized Return on Equity** shall be the overall weighted percentage rate of return on equity capital approved by the Commission in the most recently completed rate case.

l) The **Exogenous Tax Changes** shall be the changes in tax laws or regulations that are estimated to impact Authorized Base Rate Revenues by two million dollars (\$2,000,000) or more.

m) The **Rate Base** shall be the average net investment estimated for the RAM Period, including each of the elements of rate base reflected within the most recent rate case Decision & Order issued by the Commission, quantified in the manner prescribed in part (f) of Section 2 of the Rate Adjustment Mechanism.

n) The **Authorized Base Revenue** shall be the annual amount of revenue required for the utility to recover its estimated Operations & Maintenance, Depreciation, Amortization and Tax expenses for the RAM Period, as well as the Return on Investment on projected Rate Base for the RAM Period, using the ratemaking conventions and calculations reflected within the most recent rate case Decision & Order issued by the Commission, quantified in the manner prescribed herein.

o) The **RAM Revenue Adjustment** shall be the difference between the calculated Authorized Base Revenue for the RAM Period and

HAWAIIAN ELECTRIC COMPANY, INC.

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INTERIM RATE ADJUSTMENT MECHANISM PROVISION

either: 1) the previous year's calculated Authorized Base Revenue; or 2) the revenue requirement approved by the Commission in an interim or final decision in the Company's general rate case, whichever is more recent. The RAM Revenue Adjustment determined by this RAM Provision is to be recovered through the RBA Provision commencing on June 1 and over the subsequent 12 months after June 1.

If a subsequent interim decision or a final decision in a rate case is ordered by the Commission that supersedes the interim decision that is the basis for the target revenue for the test year and RAM period(s) since the last rate case, or if a final decision is ordered by the Commission that supersedes the interim decision in Docket No. 2008-0274, the target revenue will be adjusted as if the final decision had been in place from the effective date of the interim target revenues. If the difference between the total interim target revenues collected and recalculated interim target revenues shows that Hawaiian Electric "over-collected" interim target revenues, the difference will be refunded to customers with interest. If, however, the difference shows that Hawaiian Electric "under-collected" interim target revenues, no adjustment will be made to the target revenues collected in prior period(s).

p) **Earnings Sharing Revenue Credits** shall be the amounts to be returned to customers as credits through the RBA Provision, so as to implement the earnings sharing percentages and procedures described herein, commencing on June 1 of the calendar year containing the Annual Evaluation Date and over the subsequent 12 months after June 1.

q) **Major Capital Projects Credits** shall be the amounts to be returned to customers through the RBA Provision, to reduce the preceding year's RAM Revenue Adjustment (including interest at the rate described in the RBA Provision) for specific major capital projects that were not placed into service within the first nine months of the preceding RAM Period as expected. Because the Commission's review of the actual cost of Major Capital Projects may not occur until the rate case after these

HAWAIIAN ELECTRIC COMPANY, INC.

INTERIM RATE ADJUSTMENT MECHANISM PROVISION

Major Capital Projects are included in one or more RAM Revenue Adjustment filings, Major Capital Projects Credits shall be used to refund to customers any prior collections (i.e., Return on Investment on Rate Base and Depreciation, plus interest) relating to the amount of Major Capital Projects costs that the Commission subsequently disallows for cost recovery. The Major Capital Projects Credits are to be refunded through the RBA Provision, commencing on June 1 of the calendar year containing the Annual Evaluation Date and over the subsequent 12 months after June 1.

r) **Baseline Capital Projects Credits** shall be the amounts to be returned to customers through the RBA Provision, to reduce the preceding year's RAM Revenue Adjustment (including interest at the rate described in the RBA Provision) for specific baseline capital projects that are disallowed by the Commission in a subsequent rate case if the disallowance reduces actual Baseline Capital Projects costs below the Baseline Capital Projects cost estimate derived using the method identified in part (f)ii. of Section 2 of the Rate Adjustment Mechanism below. Because the Commission's review of baseline capital projects may not occur until the rate case after such baseline capital projects are included in one or more RAM Revenue Adjustment filings, Baseline Capital Projects Credits shall be used to refund to customers any prior collections (i.e., Return on Investment on Rate Base and Depreciation, plus interest) relating to the amount of Baseline Capital Projects costs that the Commission subsequently disallows for cost recovery. The Baseline Capital Projects Credits are to be refunded through the RBA Provision, commencing on June 1 of the calendar year containing the Annual Evaluation Date and over the subsequent 12 months after June 1.

Rate Adjustment Mechanism

The Company shall file with the Commission, the Consumer Advocate and each party to the Company's most recent rate case proceeding, the schedules specified below:

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INTERIM RATE ADJUSTMENT MECHANISM PROVISION

Evaluation Period Earnings Sharing:

1. For the twelve month period ending December 31, of each year (the "Evaluation Period"), with the filing to be made no later than March 31, of the year following the conclusion of the Evaluation Period. The schedules will include the following:
 - a) Company's recorded actual average net plant in service, accumulated deferred income taxes, inventory, working capital, and other rate base components. The schedules shall also show the utility's depreciation expense, operating and maintenance expense, income taxes, taxes other than income taxes, and other components of income for return, revenues, and capital structure, cost of debt, overall cost of capital, and return on common equity in the format set forth in the final order establishing the Company's latest effective rates.
 - b) All applicable accounting and pro forma adjustments historically required in annual reports filed with the Commission.
 - c) Pro-forma adjustments to remove from recorded revenues any out-of-period Earnings Sharing Revenue Credits, Major Capital Projects Credits, or Baseline Capital Projects Credits recorded during the Evaluation Period, and
 - d) A calculation comparing the achieved return on average common equity to the following earnings sharing grid, and indicating the Earnings Sharing Revenue Credit that should be recorded within the RBA to effect the prescribed sharing of earnings above authorized levels:

HAWAIIAN ELECTRIC COMPANY, INC.

INTERIM RATE ADJUSTMENT MECHANISM PROVISION

| ROE at or below the Authorized ROE | Retained entirely by shareholders - no customer credits |
|--|---|
| First 100 basis points (one percent) over Authorized ROE | 25% share credit to customers |
| Next 200 basis points (two percent) over Authorized ROE | 50% share credit to customers |
| All ROE exceeding 300 basis points (three percent) over Authorized ROE | 90% share credit to customers |

RAM Period RAM Revenue Adjustment:

- 2) The Company shall provide additional schedules indicating the following proposed RAM Revenue Adjustment calculations applicable for the RAM Period using the methodology set forth below:
 - a) The Base Expenses shall be segregated between labor and non-labor amounts and treated as follows:
 - i. The labor component shall be quantified for the RAM Period by application of the Labor Cost Escalation Rate, reduced to account for the Productivity Offset to labor expenses.
 - ii. The Non-labor components quantified for the RAM Period by application of the Non-labor Escalation Rate.
 - iii. Tracked O&M expenses for fuel, purchased power, pension/OPEBs, IRP/DSM or other rate adjustment provisions are to be carried forward for the RAM Period at the fixed amounts established in the most recent rate case proceeding.
 - b) Depreciation and amortization expenses shall be quantified for the RAM Period by application of Commission-approved accrual rates to the actual recorded

HAWAIIAN ELECTRIC COMPANY, INC.

INTERIM RATE ADJUSTMENT MECHANISM PROVISION

- Plant in Service balances at the end of the Evaluation Period.
- c) The Authorized Base Revenue required for Rate Base shall be determined by multiplying the applicable Return on Investment percentage rate times Rate Base. The Authorized Base Revenue associated with return on investment shall include related income taxes on the equity components of such return. The quantification of Rate Base is specified in greater detail in part (f) of this Section 2.
 - d) The Authorized Base Revenue impact of any Exogenous Tax Changes shall be included in the RAM Period calculation of Authorized Base Revenues.
 - e) Revenue taxes shall be adjusted to account for the change in parts (a) through (d) of this Section 2.
 - f) Rate Base for the RAM Period shall be quantified as follows:
 - i. Plant in Service, Accumulated Depreciation, Accumulated Deferred Income Taxes and Contributions in Aid of Construction ("CIAC") shall be a two-point average of actual recorded balance sheet data at December 31 of the Evaluation Period, plus projected values at December 31 of the RAM Period determined as prescribed in parts (ii) through (v), below.
 - ii. Plant in Service shall be quantified by adding to the recorded balances at December 31 of the Evaluation Period, the simple average of Baseline Capital Projects plant additions recorded in the immediately preceding five calendar years, plus the estimated cost of completed Major Capital Projects that are anticipated to be in service by September 30 of the RAM Period. The cost of Major Capital Projects shall be limited to the dollar amounts previously approved by the Commission.
 - iii. Accumulated Depreciation at December 31 of the RAM Period shall be quantified by increasing the recorded balances at December 31 of the

HAWAIIAN ELECTRIC COMPANY, INC.

INTERIM RATE ADJUSTMENT MECHANISM PROVISION

- Evaluation Period by the amount set forth in Section 2 part (b) above.
- iv. CIAC shall be quantified by adding to the recorded balance at December 31 of the Evaluation Period an estimate of the net change for the RAM Period. The net change shall be based on a simple average of cash and in-kind CIAC for the immediately preceding five calendar years for programs (i.e., numerous low cost capital projects) plus specific engineering estimates of any contributions for the Major Capital Projects anticipated to be in service by September 30 of the RAM Period.
 - v. Accumulated Deferred Income Taxes shall be quantified by adding to the recorded balances at December 31 of the Evaluation Period the estimated tax effect of the depreciation timing difference (i.e., difference between book depreciation and tax depreciation) on the Baseline Capital Projects and Major Capital Projects added to rate base during the RAM Period.
 - vi. Working Cash and all other elements of rate base not specifically addressed above shall be fixed at the dollar amount approved by the Commission in the last rate case Decision & Order. These elements of rate base shall be held constant until revised by a Commission Decision & Order in a subsequent general rate case.

Interim Performance Metric ("IPM")

1. The 2010 IPM is defined as the ratio of the mW of energy purchases from renewable energy resources signed and filed with the Commission between November 30, 2009 and December 31, 2010 divided by 40 mW, or other target mW approved by the Commission, rounded to the nearest whole percent. The 2010 IPM can be less than or equal to 100%; it cannot exceed 100%.

HAWAIIAN ELECTRIC COMPANY, INC.

INTERIM RATE ADJUSTMENT MECHANISM PROVISION

2. The 2010 IPM will apply this metric as a multiplier to the calculated 2011 RAM Revenue Adjustment. The 2011 RAM Revenue Adjustment, adjusted by the 2010 IPM, will be included in the RBA as described in the RBA tariff.
3. The 2010 RAM Revenue Adjustment will not be adjusted by an IPM.
4. The mW of energy purchases from renewable energy resources shall include all energy purchases from renewable energy resources on Oahu executed by the Hawaiian Electric Company, Inc., including contracts executed under the Net Energy Metering tariff and the Feed-In-Tariff. The mW shall be the contract capacity mW of the renewable resource.
5. Renewable energy shall include resources identified under the Renewable Portfolio Standards as amended by Act 155 (2009).

Evaluation Procedures

Complete, indexed workpapers and electronic files supporting the RAM Adjustment Schedules shall be provided to the Commission, the Consumer Advocate and all other parties to the Utility's most recent rate case proceeding, coincident with the date of filing. The Company will be prepared to provide supplemental information as may be requested to ensure adequate review by the Commission, Consumer Advocate or other parties. The Consumer Advocate and the other parties may propose any adjustments determined to be required to bring the schedules into compliance with the above provisions and will work collaboratively to reach agreement on any proposed adjustments. As described in Sections 6-61-61 and 6-61-111 of the Hawaii Administrative Rules, Title 6, Chapter 61, based upon the Company's filed schedules and in the absence of any protests submitted by the Consumer Advocate or other parties not later than 15 days before the June 1 effective date of the

HAWAIIAN ELECTRIC COMPANY, INC.

INTERIM RATE ADJUSTMENT MECHANISM PROVISION

RBA Rate Adjustments described in the RBA Provision tariff, the RBA Rate Adjustments incorporating the RAM Revenue Adjustment shall go into effect on the June 1 effective date and the Commission shall confirm in its monthly Tariff Order the effectiveness of the Company's proposed tariff, so as to achieve the revenue levels approved for both the Evaluation Period and RAM Period.

Notice

Notice of the annual Rate Adjustment Mechanism filing shall be provided to all affected customers of the Utility in accordance with the provisions of this section by publication in newspapers of general circulation within 30 days and by including notification with its billing statements within 60 days after the Company makes its annual filing pursuant to this tariff. The notice to customers shall include the following information:

- a) A description of the proposed revision of revenues and Earnings sharing credits;
- b) The effect of the proposed RAM Revenue Adjustment on the rates applicable to each customer class and on the typical bill for residential customers; and
- c) The Company's address, telephone number and website where information concerning the proposed RAM Revenue adjustment may be obtained.

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SHEET NO. _____

Effective _____

INTERIM REVENUE BALANCING ACCOUNT PROVISION

MAUI, LANAI, AND MOLOKAI DIVISIONS

Supplement To:

Schedule R - Residential Service
Schedule E - Electric Service For Employees
Schedule G - General Service Non-Demand
Schedule J - General Service Demand
Schedule H - Commercial Cooking, Heating, Air Conditioning,
And Refrigeration Service
Schedule P - Large Power Service
Schedule N - Contract Off-Peak and Interruptible Service
Schedule F - Street Light Service
Schedule U - Time of Use Service
Schedule SS - Standby Service

All terms and provisions of Schedules R, E, G, J, H, P, N, F, U, and SS are applicable except that the total base rate charges for each billing period shall be adjusted by the Revenue Balancing Account Rate Adjustments shown below:

A: PURPOSE:

The purpose of the Revenue Balancing Account ("RBA") is to record: 1) the difference between the Maui Electric Company's (MECO's) target revenue and recorded adjusted revenue, and 2) monthly interest applied to the simple average of the beginning and ending month balances in the RBA. In addition, the recovery provision of this tariff provides for collection or return of the calendar year-end balance in the RBA and recovery of the RAM Revenue Adjustment provided in the Rate Adjustment Mechanism ("RAM") Provision over the subsequent June 1st through May 31st period. A single RBA will be established to be applicable to all of MECO's divisions. The RBA is effective upon issuance of an interim decision in Docket No. 2009-0163, MECO's 2010 test year rate case, and established in accordance with the Commission interim order in Docket No. 2008-0274.

If the final order in Docket No. 2008-0274 does not approve the establishment of a decoupling mechanism (including the establishment of an RBA), all revenues collected under the RBA Provision per the interim order will be refunded to customers with interest at the rate noted in Section C below. Upon issuance of the final order in Docket No. 2008-0274, the interim target revenues will be recalculated to determine what they would have been if the final decision and order had been in place from the effective date of the interim target revenues. If the difference between the total interim target revenues collected and recalculated interim target revenues shows that the

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INTERIM REVENUE BALANCING ACCOUNT ("RBA") PROVISION

interim target revenues were over-collected, the difference will be refunded to customers with interest.

MAUI, LANAI, AND MOLOKAI DIVISIONS

B: TARGET REVENUE:

For the purpose of the RBA, the target revenue is the most recent Authorized Base Revenue approved by the Public Utilities Commission (PUC), plus or minus the RAM Revenue Adjustment calculated under the RAM Provision, adjusted to remove amounts for applicable revenue taxes. The target revenue will exclude revenue for fuel and purchased power expenses that are recovered either in base rates or in a purchased power adjustment clause and all revenue being separately

tracked or recovered through any other surcharge or rate tracking mechanism.

If a subsequent interim decision or a final decision in a rate case is ordered by the Commission that supersedes the interim decision that is the basis for the target revenue for the test year and RAM period(s) since the last rate case, or if a final decision is ordered by the Commission that supersedes the interim decision in Docket No. 2008-0274, the target revenue will be adjusted as if the final decision had been in place from the effective date of the interim target revenues. If the difference between the total interim target revenues collected and recalculated interim target revenues shows that Hawaiian Electric "over-collected" interim target revenues, the difference will be refunded to customers with interest. If, however, the difference shows that Hawaiian Electric "under-collected" interim target revenues, no adjustment will be made to the target revenues collected in prior period(s).

The target revenue shall be revised to correct for any errors in the calculation of the RAM Revenue Adjustment for any previous period to the extent that such errors are identified 15 days prior to the Annual implementation date specified in the RAM Provision.

Monthly Allocation Factors for the Target Revenue are as follows:

| | |
|----------|-------|
| January | 8.24% |
| February | 7.41% |
| March | 8.24% |
| April | 7.89% |
| May | 8.39% |
| June | 8.49% |
| July | 8.90% |

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| | |
|-----------|--------------|
| August | 9.04% |
| September | 8.41% |
| October | 8.72% |
| November | 8.17% |
| December | <u>8.10%</u> |
| Total | 100.00% |

MAUI, LANAI, AND MOLOKAI DIVISIONS

These factors are based on the MWh sales forecast approved by the Commission in MECO's test year 2010 rate case and shall be updated in any subsequent test year rate case.

C: BALANCING ACCOUNT ENTRIES:

Entries to the RBA will be recorded monthly. A debit entry to the RBA will be made equal to the target revenue as defined in Section B. above, times the appropriate monthly allocation factor in the table above. A credit entry to the RBA will be made equal to the recorded adjusted revenue. The recorded adjusted revenue is defined to include the electric sales revenue from authorized base rates, plus revenue from any authorized interim rate increase, plus revenue from any RBA rate adjustment, but excluding revenue for fuel and purchased power expenses, IRP/DSM, any Commission Ordered one-time rate refunds or credits or other surcharges, and adjusted to remove amounts for applicable revenue taxes.

Interest will be recorded monthly to the RBA by multiplying the simple average of the beginning and ending month balance in the RBA times the Interest Rate divided by 12. The Interest Rate shall be 6 percent.

D: RECOVERY OF BALANCING ACCOUNT AMOUNTS:

At the Annual Evaluation Date provided in the Rate Adjustment Mechanism Provision, the Company will file with the Commission a statement of the previous calendar year-end balance in the RBA and the RAM Revenue Adjustment for the current calendar year, along with supporting calculations. Both an amortization of the previous calendar year-end balance in the RBA, adjusted for any Earnings Sharing Revenue Credits or Major Capital Projects Credits or Baseline Capital Projects Credits and the RAM Revenue Adjustment will be recovered through a per-kWh RBA rate adjustment, over the 12 months from June 1 of the current calendar year to May 31 of the succeeding calendar year.

E: REVENUE BALANCING ACCOUNT RATE ADJUSTMENTS:

The RBA rate adjustments are comprised of the calculated values from Section D above, adjusted to include amounts for applicable revenue

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INTERIM REVENUE BALANCING ACCOUNT ("RBA") PROVISION

taxes. The RBA rate adjustment is calculated based on the Company's forecast of MWh sales over the RBA rate adjustment recovery period.

Effective

RBA Adjustment

All Rate Schedules.....0.0000 ¢/kWh



MAUI, LANAI, AND MOLOKAI DIVISIONS

INTERIM RATE ADJUSTMENT MECHANISM PROVISION

Interim Rate Adjustment Mechanism ("RAM") Provision

Purpose

This mechanism is subject to review and continuation, termination or modification in the utility's next base rate case proceeding, upon a showing by the utility and finding by the Commission that continuation or modification is appropriate. As part of its submitted testimony in the base rate case, the Company will include a summary report on the status of certain HCEI initiatives. The RAM mechanism is designed to determine the change in annual utility base revenue levels, recognizing certain estimated changes in the utility's cost to provide service. If, through the application of this mechanism, it is determined that annual utility base revenues should be decreased or increased, then the RAM Revenue Adjustment will be applied within the Revenue Balancing Account ("RBA") Provision. The RAM Revenue Adjustment established for a RAM Period calendar year that is the same as a rate case test year shall remain in effect until the Commission approves a base revenue level in the Company's rate case application.

Definitions

- a) The **Annual Evaluation Date** shall be the Date the Company will make its annual filing under this mechanism. The Annual Evaluation Date shall be no later than March 31, of each year commencing March 31, 2010.
- b) The **Evaluation Period** is defined as the historical twelve month period ending December 31, of each calendar year preceding the Annual Evaluation Date. The Evaluation Period is used solely to determine achieved earnings and any sharing of such earnings above the Authorized Return on Equity.
- c) The **RAM Period** is defined as the calendar year containing the Annual Evaluation Date.

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MAUI, LANAI, AND MOLOKAI DIVISIONS

INTERIM RATE ADJUSTMENT MECHANISM PROVISION

d) The **Labor Cost Escalation Rate** shall be the applicable annual percentage general wage rate increase provided for in currently effective union labor agreements for use in escalating wage and salary Base Expenses for both union and non-union employees to determine the RAM Revenue Adjustment for each RAM Period. In the event no union labor agreement exists for a RAM Period, the most recently effective annual general percentage increase rate shall apply.

e) The **Non-labor Cost Escalation Rate** shall be the consensus estimated annual change in the Gross Domestic Product Price Indicator ("GDPPI") to escalate non-labor Base Expenses to determine the RAM Revenue Adjustment for each RAM Period. The GDPPI escalation rate shall be the consensus projection published by the Blue Chip Economic Indicators (Aspen Publishing) each February for the current Rate Adjustment Period. In the event that the Blue Chip Economic Indicators forecast of the GDPPI is not available, the Consumer Advocate, Company, and other parties to the most recent rate case, with approval of the Commission, shall jointly select an alternative data source, or national economic index similar to GDPPI, as appropriate.

f) The annual **Labor Productivity Offset** shall be fixed at 0.76 percent (76/100 of one percent) and will be subtracted from the Labor Cost Escalation Rates applicable to Base Expenses to determine the authorized RAM Revenue Adjustment for each RAM Period.

g) The **Base Expenses** shall be the labor and non-labor operations and maintenance expense amounts approved by the Commission in the most recently completed rate case where the test year was the Evaluation Period, or alternatively as approved by the Commission for the immediately preceding year Rate Adjustment Mechanism results if the Evaluation Period was not a test year. Base Expenses shall not include any fuel, purchased power, IRP/DSM, pension, Other Post Employment Benefits ("OPEB"), or Clean Energy/Renewable Energy

MAUI ELECTRIC COMPANY, LIMITED

MAUI, LANAI, AND MOLOKAI DIVISIONS

INTERIM RATE ADJUSTMENT MECHANISM PROVISION

Infrastructure costs that are subject to recovery through separate rate tracking mechanisms.

h) The **Major Capital Projects** shall be those capital investment projects that require application and Commission approval under the Commission's General Order No. 7, but excluding those projects included in the Clean Energy Infrastructure Surcharge.

i) The **Baseline Capital Projects** shall be the total amounts of capital investment completed and closed to Plant in Service, excluding amounts related to Major Capital Projects.

j) The **Return on Investment** shall be the overall weighted percentage rate of return on debt and equity capital approved by the Commission in the most recently completed rate case.

k) The **Authorized Return on Equity** shall be the overall weighted percentage rate of return on equity capital approved by the Commission in the most recently completed rate case.

l) The **Exogenous Tax Changes** shall be the changes in tax laws or regulations that are estimated to impact Authorized Base Rate Revenues by two million dollars (\$2,000,000) or more.

m) The **Rate Base** shall be the average net investment estimated for the RAM Period, including each of the elements of rate base reflected within the most recent rate case Decision & Order issued by the Commission, quantified in the manner prescribed in part (f) of Section 2 of the Rate Adjustment Mechanism.

n) The **Authorized Base Revenue** shall be the annual amount of revenue required for the utility to recover its estimated Operations & Maintenance, Depreciation, Amortization and Tax expenses for the RAM Period, as well as the Return on Investment on projected Rate Base for the RAM Period, using the ratemaking conventions and calculations reflected within the most recent rate case Decision & Order issued by the Commission, quantified in the manner prescribed herein.

MAUI ELECTRIC COMPANY, LIMITED

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MAUI, LANAI, AND MOLOKAI DIVISIONS

INTERIM RATE ADJUSTMENT MECHANISM PROVISION

o) The **RAM Revenue Adjustment** shall be the difference between the calculated Authorized Base Revenue for the RAM Period and either: 1) the previous year's calculated Authorized Base Revenue; or 2) the revenue requirement approved by the Commission in an interim or final decision in the Company's general rate case, whichever is more recent. The RAM Revenue Adjustment determined by this RAM Provision is to be recovered through the RBA Provision commencing on June 1 and over the subsequent 12 months after June 1.

If a subsequent interim decision or a final decision in a rate case is ordered by the Commission that supersedes the interim decision that is the basis for the target revenue for the test year and RAM period(s) since the last rate case, or if a final decision is ordered by the Commission that supersedes the interim decision in Docket No. 2008-0274, the target revenue will be adjusted as if the final decision had been in place from the effective date of the interim target revenues. If the difference between the total interim target revenues collected and recalculated interim target revenues shows that Hawaiian Electric "over-collected" interim target revenues, the difference will be refunded to customers with interest. If, however, the difference shows that Hawaiian Electric "under-collected" interim target revenues, no adjustment will be made to the target revenues collected in prior period(s).

p) **Earnings Sharing Revenue Credits** shall be the amounts to be returned to customers as credits through the RBA Provision, so as to implement the earnings sharing percentages and procedures described herein, commencing on June 1 of the calendar year containing the Annual Evaluation Date and over the subsequent 12 months after June 1.

q) **Major Capital Projects Credits** shall be the amounts to be returned to customers through the RBA Provision, to reduce the preceding year's RAM Revenue Adjustment (including interest at the rate described in the RBA Provision) for specific major capital projects that were not placed into service within the

MAUI ELECTRIC COMPANY, LIMITED

MAUI, LANAI, AND MOLOKAI DIVISIONS

INTERIM RATE ADJUSTMENT MECHANISM PROVISION

first nine months of the preceding RAM Period as expected. Because the Commission's review of the actual cost of Major Capital Projects may not occur until the rate case after these Major Capital Projects are included in one or more RAM Revenue Adjustment filings, Major Capital Projects Credits shall be used to refund to customers any prior collections (i.e., Return on Investment on Rate Base and Depreciation, plus interest) relating to the amount of Major Capital Projects costs that the Commission subsequently disallows for cost recovery. The Major Capital Projects Credits are to be refunded through the RBA Provision, commencing on June 1 of the calendar year containing the Annual Evaluation Date and over the subsequent 12 months after June 1.

r) **Baseline Capital Projects Credits** shall be the amounts to be returned to customers through the RBA Provision, to reduce the preceding year's RAM Revenue Adjustment (including interest at the rate described in the RBA Provision) for specific baseline capital projects that are disallowed by the Commission in a subsequent rate case if the disallowance reduces actual Baseline Capital Projects costs below the Baseline Capital Projects cost estimate derived using the method identified in part (f)ii. of Section 2 of the Rate Adjustment Mechanism below. Because the Commission's review of baseline capital projects may not occur until the rate case after such baseline capital projects are included in one or more RAM Revenue Adjustment filings, Baseline Capital Projects Credits shall be used to refund to customers any prior collections (i.e., Return on Investment on Rate Base and Depreciation, plus interest) relating to the amount of Baseline Capital Projects costs that the Commission subsequently disallows for cost recovery. The Baseline Capital Projects Credits are to be refunded through the RBA Provision, commencing on June 1 of the calendar year containing the Annual Evaluation Date and over the subsequent 12 months after June 1.

Rate Adjustment Mechanism

MAUI ELECTRIC COMPANY, LIMITED

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MAUI, LANAI, AND MOLOKAI DIVISIONS

INTERIM RATE ADJUSTMENT MECHANISM PROVISION

The Company shall file with the Commission, the Consumer Advocate and each party to the Company's most recent rate case proceeding, the schedules specified below:

Evaluation Period Earnings Sharing:

1. For the twelve month period ending December 31, of each year (the "Evaluation Period"), with the filing to be made no later than March 31, of the year following the conclusion of the Evaluation Period. The schedules will include the following:
 - a) Company's recorded actual average net plant in service, accumulated deferred income taxes, inventory, working capital, and other rate base components. The schedules shall also show the utility's depreciation expense, operating and maintenance expense, income taxes, taxes other than income taxes, and other components of income for return, revenues, and capital structure, cost of debt, overall cost of capital, and return on common equity in the format set forth in the final order establishing the Company's latest effective rates.
 - b) All applicable accounting and pro forma adjustments historically required in annual reports filed with the Commission.
 - c) Pro-forma adjustments to remove from recorded revenues any out-of-period Earnings Sharing Revenue Credits, Major Capital Projects Credits, or Baseline Capital Projects Credits recorded during the Evaluation Period, and
 - d) A calculation comparing the achieved return on average common equity to the following earnings sharing grid, and indicating the Earnings Sharing Revenue Credit that should be recorded within the RBA to effect the prescribed sharing of earnings above authorized levels:

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MAUI, LANAI, AND MOLOKAI DIVISIONS

INTERIM RATE ADJUSTMENT MECHANISM PROVISION

| | |
|--|--|
| ROE at or below the Authorized ROE | Retained entirely by shareholders - no customer credits |
| First 100 basis points (one percent) over Authorized ROE | 25% share credit to customers |
| Next 200 basis points (two percent) over Authorized ROE | 50% share credit to customers |
| All ROE exceeding 300 basis points (three percent) over Authorized ROE | 90% share credit to customers |

RAM Period RAM Revenue Adjustment:

2) The Company shall provide additional schedules indicating the following proposed RAM Revenue Adjustment calculations applicable for the RAM Period using the methodology set forth below:

- a) The Base Expenses shall be segregated between labor and non-labor amounts and treated as follows:
 - i. The labor component shall be quantified for the RAM Period by application of the Labor Cost Escalation Rate, reduced to account for the Productivity Offset to labor expenses.
 - ii. The Non-labor components quantified for the RAM Period by application of the Non-labor Escalation Rate.
 - iii. Tracked O&M expenses for fuel, purchased power, pension/OPEBs, IRP/DSM or other rate adjustment provisions are to be carried forward for the RAM Period at the fixed amounts established in the most recent rate case proceeding.
- b) Depreciation and amortization expenses shall be quantified for the RAM Period by application of Commission-approved accrual rates to the actual recorded

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INTERIM RATE ADJUSTMENT MECHANISM PROVISION

Plant in Service balances at the end of the Evaluation Period.

- c) The Authorized Base Revenue required for Rate Base shall be determined by multiplying the applicable Return on Investment percentage rate times Rate Base. The Authorized Base Revenue associated with return on investment shall include related income taxes on the equity components of such return. The quantification of Rate Base is specified in greater detail in part (f) of this Section 2.
- d) The Authorized Base Revenue impact of any Exogenous Tax Changes shall be included in the RAM Period calculation of Authorized Base Revenues.
- e) Revenue taxes shall be adjusted to account for the change in parts (a) through (d) of this Section 2.
- f) Rate Base for the RAM Period shall be quantified as follows:
 - i. Plant in Service, Accumulated Depreciation, Accumulated Deferred Income Taxes and Contributions in Aid of Construction ("CIAC") shall be a two-point average of actual recorded balance sheet data at December 31 of the Evaluation Period, plus projected values at December 31 of the RAM Period determined as prescribed in parts (ii) through (v), below.
 - ii. Plant in Service shall be quantified by adding to the recorded balances at December 31 of the Evaluation Period, the simple average of Baseline Capital Projects plant additions recorded in the immediately preceding five calendar years, plus the estimated cost of completed Major Capital Projects that are anticipated to be in service by September 30 of the RAM Period. The cost of Major Capital Projects shall be limited to the dollar amounts previously approved by the Commission.
 - iii. Accumulated Depreciation at December 31 of the RAM Period shall be quantified by increasing the recorded balances at December 31 of the

MAUI ELECTRIC COMPANY, LIMITED

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INTERIM RATE ADJUSTMENT MECHANISM PROVISION

- Evaluation Period by the amount set forth in Section 2 part (b) above.
- iv. CIAC shall be quantified by adding to the recorded balance at December 31 of the Evaluation Period an estimate of the net change for the RAM Period. The net change shall be based on a simple average of cash and in-kind CIAC for the immediately preceding five calendar years for programs (i.e., numerous low cost capital projects) plus specific engineering estimates of any contributions for the Major Capital Projects anticipated to be in service by September 30 of the RAM Period.
 - v. Accumulated Deferred Income Taxes shall be quantified by adding to the recorded balances at December 31 of the Evaluation Period the estimated tax effect of the depreciation timing difference (i.e., difference between book depreciation and tax depreciation) on the Baseline Capital Projects and Major Capital Projects added to rate base during the RAM Period.
 - vi. Working Cash and all other elements of rate base not specifically addressed above shall be fixed at the dollar amount approved by the Commission in the last rate case Decision & Order. These elements of rate base shall be held constant until revised by a Commission Decision & Order in a subsequent general rate case.

Evaluation Procedures

Complete, indexed workpapers and electronic files supporting the RAM Adjustment Schedules shall be provided to the Commission, the Consumer Advocate and all other parties to the

MAUI ELECTRIC COMPANY, LIMITED

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MAUI, LANAI, AND MOLOKAI DIVISIONS

INTERIM RATE ADJUSTMENT MECHANISM PROVISION

Utility's most recent rate case proceeding, coincident with the date of filing. The Company will be prepared to provide supplemental information as may be requested to ensure adequate review by the Commission, Consumer Advocate or other parties. The Consumer Advocate and the other parties may propose any adjustments determined to be required to bring the schedules into compliance with the above provisions and will work collaboratively to reach agreement on any proposed adjustments. As described in Sections 6-61-61 and 6-61-111 of the Hawaii Administrative Rules, Title 6, Chapter 61, based upon the Company's filed schedules and in the absence of any protests submitted by the Consumer Advocate or other parties not later than 15 days before the June 1 effective date of the RBA Rate Adjustments described in the RBA Provision tariff, the RBA Rate Adjustments incorporating the RAM Revenue Adjustment shall go into effect on the June 1 effective date and the Commission shall confirm in its monthly Tariff Order the effectiveness of the Company's proposed tariff, so as to achieve the revenue levels approved for both the Evaluation Period and RAM Period.

Notice

Notice of the annual Rate Adjustment Mechanism filing shall be provided to all affected customers of the Utility in accordance with the provisions of this section by publication in newspapers of general circulation within 30 days and by including notification with its billing statements within 60 days after the Company makes its annual filing pursuant to this tariff. The notice to customers shall include the following information:

- a) A description of the proposed revision of revenues and Earnings sharing credits;
- b) The effect of the proposed RAM Revenue Adjustment on the rates applicable to each customer class and on the typical bill for residential customers; and

MAUI ELECTRIC COMPANY, LIMITED

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MAUI, LANAI, AND MOLOKAI DIVISIONS

INTERIM RATE ADJUSTMENT MECHANISM PROVISION

- c) The Company's address, telephone number and website where information concerning the proposed RAM Revenue adjustment may be obtained.

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REVENUE BALANCING ACCOUNT PROVISION

Supplement To:

Schedule R - Residential Service
Schedule E - Electric Service For Employees
Schedule G - General Service Non-Demand
Schedule J - General Service Demand
Schedule H - Commercial Cooking and Heating Service
Schedule P - Large Power Service
Schedule F - Street Light Service
Schedule U - Time of Use Service
Schedule SS - Standby Service

All terms and provisions of Schedules R, E, G, J, H, P, F, U, and SS are applicable except that the total base rate charges for each billing period shall be adjusted by the Revenue Balancing Account Rate Adjustments shown below:

A: PURPOSE:

The purpose of the Revenue Balancing Account ("RBA") is to record: 1) the difference between the Hawaii Electric Light Company's (HELCO's) target revenue and recorded adjusted revenue, and 2) monthly interest applied to the simple average of the beginning and ending month balances in the RBA. In addition, the recovery provision of this tariff provides for collection or return of the calendar year-end balance in the RBA and recovery of the RAM Revenue Adjustment provided in the Rate Adjustment Mechanism ("RAM") Provision over the subsequent June 1st through May 31st period. The RBA is effective upon issuance of an interim decision in Docket No. 2009-0164, HELCO's 2010 test year rate case, and established in accordance with the Commission interim order in Docket No. 2008-0274.

If the final order in Docket No. 2008-0274 does not approve the establishment of a decoupling mechanism (including the establishment of an RBA), all revenues collected under the RBA Provision per the interim order will be refunded to customers with interest at the rate noted in Section C below. Upon issuance of the final order in Docket No. 2008-0274, the interim target revenues will be recalculated to determine what they would have been if the final decision and order had been in place from the effective date of the interim target revenues. If the difference between the total interim target revenues collected and recalculated interim target revenues shows that the interim target revenues were over-collected, the difference will be refunded to customers with interest.

B: TARGET REVENUE:

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REVENUE BALANCING ACCOUNT ("RBA") PROVISION

For the purpose of the RBA, the target revenue is the most recent Authorized Base Revenue approved by the Public Utilities Commission (PUC), plus or minus the RAM Revenue Adjustment calculated under the RAM Provision, adjusted to remove amounts for applicable revenue taxes. The target revenue will exclude revenue for fuel and purchased power expenses that are recovered either in base rates or in a purchased power adjustment clause and all revenue being separately tracked or recovered through any other surcharge or rate tracking mechanism.

If a subsequent interim decision or a final decision in a rate case is ordered by the Commission that supersedes the interim decision that is the basis for the target revenue for the test year and RAM period(s) since the last rate case, or if a final decision is ordered by the Commission that supersedes the interim decision in Docket No. 2008-0274, the target revenue will be adjusted as if the final decision had been in place from the effective date of the interim target revenues. If the difference between the total interim target revenues collected and recalculated interim target revenues shows that Hawaiian Electric "over-collected" interim target revenues, the difference will be refunded to customers with interest. If, however, the difference shows that Hawaiian Electric "under-collected" interim target revenues, no adjustment will be made to the target revenues collected in prior period(s).

The target revenue shall be revised to correct for any errors in the calculation of the RAM Revenue Adjustment for any previous period to the extent that such errors are identified 15 days prior to the Annual implementation date specified in the RAM Provision.

Monthly Allocation Factors for the Target Revenue are as follows:

| | |
|-----------|--------------|
| January | 8.30% |
| February | 7.57% |
| March | 8.36% |
| April | 8.00% |
| May | 8.37% |
| June | 8.17% |
| July | 8.64% |
| August | 8.84% |
| September | 8.39% |
| October | 8.60% |
| November | 8.26% |
| December | <u>8.50%</u> |

| | |
|-------|---------|
| Total | 100.00% |
|-------|---------|

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REVENUE BALANCING ACCOUNT ("RBA") PROVISION

These factors are based on the MWh sales forecast approved by the Commission in HELCO's test year 2010 rate case and shall be updated in any subsequent test year rate case.

C: BALANCING ACCOUNT ENTRIES:

Entries to the RBA will be recorded monthly. A debit entry to the RBA will be made equal to the target revenue as defined in Section B. above, times the appropriate monthly allocation factor in the table above. A credit entry to the RBA will be made equal to the recorded adjusted revenue. The recorded adjusted revenue is defined to include the electric sales revenue from authorized base rates, plus revenue from any authorized interim rate increase, plus revenue from any RBA rate adjustment, but excluding revenue for fuel and purchased power expenses, IRP/DSM, any Commission Ordered one-time rate refunds or credits or other surcharges, and adjusted to remove amounts for applicable revenue taxes.

Interest will be recorded monthly to the RBA by multiplying the simple average of the beginning and ending month balance in the RBA times the Interest Rate divided by 12. The Interest Rate shall be 6 percent.

D: RECOVERY OF BALANCING ACCOUNT AMOUNTS:

At the Annual Evaluation Date provided in the Rate Adjustment Mechanism Provision, the Company will file with the Commission a statement of the previous calendar year-end balance in the RBA and the RAM Revenue Adjustment for the current calendar year, along with supporting calculations. Both an amortization of the previous calendar year-end balance in the RBA, adjusted for any Earnings Sharing Revenue Credits or Major Capital Projects Credits or Baseline Capital Projects Credits and the RAM Revenue Adjustment will be recovered through a per-kWh RBA rate adjustment, over the 12 months from June 1 of the current calendar year to May 31 of the succeeding calendar year.

E: REVENUE BALANCING ACCOUNT RATE ADJUSTMENTS:

The RBA rate adjustments are comprised of the calculated values from Section D above, adjusted to include amounts for applicable revenue taxes. The RBA rate adjustment is calculated based on the Company's forecast of MWh sales over the RBA rate adjustment recovery period.

Effective

RBA Adjustment

All Rate Schedules.....0.0000 ¢/kWh



INTERIM RATE ADJUSTMENT MECHANISM PROVISION

Interim Rate Adjustment Mechanism ("RAM") Provision

Purpose

This mechanism is subject to review and continuation, termination or modification in the utility's next base rate case proceeding, upon a showing by the utility and finding by the Commission that continuation or modification is appropriate. As part of its submitted testimony in the base rate case, the Company will include a summary report on the status of certain HCEI initiatives. The RAM mechanism is designed to determine the change in annual utility base revenue levels, recognizing certain estimated changes in the utility's cost to provide service. If, through the application of this mechanism, it is determined that annual utility base revenues should be decreased or increased, then the RAM Revenue Adjustment will be applied within the Revenue Balancing Account ("RBA") Provision. The RAM Revenue Adjustment established for a RAM Period calendar year that is the same as a rate case test year shall remain in effect until the Commission approves a base revenue level in the Company's rate case application.

Definitions

- a) The **Annual Evaluation Date** shall be the Date the Company will make its annual filing under this mechanism. The Annual Evaluation Date shall be no later than March 31, of each year commencing March 31, 2010.
- b) The **Evaluation Period** is defined as the historical twelve month period ending December 31, of each calendar year preceding the Annual Evaluation Date. The Evaluation Period is used solely to determine achieved earnings and any sharing of such earnings above the Authorized Return on Equity.
- c) The **RAM Period** is defined as the calendar year containing the Annual Evaluation Date.

HAWAII ELECTRIC LIGHT COMPANY, INC.

Docket No. .

INTERIM RATE ADJUSTMENT MECHANISM PROVISION

d) The **Labor Cost Escalation Rate** shall be the applicable annual percentage general wage rate increase provided for in currently effective union labor agreements for use in escalating wage and salary Base Expenses for both union and non-union employees to determine the RAM Revenue Adjustment for each RAM Period. In the event no union labor agreement exists for a RAM Period, the most recently effective annual general percentage increase rate shall apply.

e) The **Non-labor Cost Escalation Rate** shall be the consensus estimated annual change in the Gross Domestic Product Price Indicator ("GDPPI") to escalate non-labor Base Expenses to determine the RAM Revenue Adjustment for each RAM Period. The GDPPI escalation rate shall be the consensus projection published by the Blue Chip Economic Indicators (Aspen Publishing) each February for the current Rate Adjustment Period. In the event that the Blue Chip Economic Indicators forecast of the GDPPI is not available, the Consumer Advocate, Company, and other parties to the most recent rate case, with approval of the Commission, shall jointly select an alternative data source, or national economic index similar to GDPPI, as appropriate.

f) The annual **Labor Productivity Offset** shall be fixed at 0.76 percent (76/100 of one percent) and will be subtracted from the Labor Cost Escalation Rates applicable to Base Expenses to determine the authorized RAM Revenue Adjustment for each RAM Period.

g) The **Base Expenses** shall be the labor and non-labor operations and maintenance expense amounts approved by the Commission in the most recently completed rate case where the test year was the Evaluation Period, or alternatively as approved by the Commission for the immediately preceding year Rate Adjustment Mechanism results if the Evaluation Period was not a test year. Base Expenses shall not include any fuel, purchased power, IRP/DSM, pension, Other Post Employment Benefits ("OPEB"), or Clean Energy/Renewable Energy

HAWAII ELECTRIC LIGHT COMPANY, INC.

Docket No. .

INTERIM RATE ADJUSTMENT MECHANISM PROVISION

Infrastructure costs that are subject to recovery through separate rate tracking mechanisms.

h) The **Major Capital Projects** shall be those capital investment projects that require application and Commission approval under the Commission's General Order No. 7, but excluding those projects included in the Clean Energy Infrastructure Surcharge.

i) The **Baseline Capital Projects** shall be the total amounts of capital investment completed and closed to Plant in Service, excluding amounts related to Major Capital Projects.

j) The **Return on Investment** shall be the overall weighted percentage rate of return on debt and equity capital approved by the Commission in the most recently completed rate case.

k) The **Authorized Return on Equity** shall be the overall weighted percentage rate of return on equity capital approved by the Commission in the most recently completed rate case.

l) The **Exogenous Tax Changes** shall be the changes in tax laws or regulations that are estimated to impact Authorized Base Rate Revenues by two million dollars (\$2,000,000) or more.

m) The **Rate Base** shall be the average net investment estimated for the RAM Period, including each of the elements of rate base reflected within the most recent rate case Decision & Order issued by the Commission, quantified in the manner prescribed in part (f) of Section 2 of the Rate Adjustment Mechanism.

n) The **Authorized Base Revenue** shall be the annual amount of revenue required for the utility to recover its estimated Operations & Maintenance, Depreciation, Amortization and Tax expenses for the RAM Period, as well as the Return on Investment on projected Rate Base for the RAM Period, using the ratemaking conventions and calculations reflected within the most recent rate case Decision & Order issued by the Commission, quantified in the manner prescribed herein.

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o) The **RAM Revenue Adjustment** shall be the difference between the calculated Authorized Base Revenue for the RAM Period and either: 1) the previous year's calculated Authorized Base Revenue; or 2) the revenue requirement approved by the Commission in an interim or final decision in the Company's general rate case, whichever is more recent. The RAM Revenue Adjustment determined by this RAM Provision is to be recovered through the RBA Provision commencing on June 1 and over the subsequent 12 months after June 1.

If a subsequent interim decision or a final decision in a rate case is ordered by the Commission that supersedes the interim decision that is the basis for the target revenue for the test year and RAM period(s) since the last rate case, or if a final decision is ordered by the Commission that supersedes the interim decision in Docket No. 2008-0274, the target revenue will be adjusted as if the final decision had been in place from the effective date of the interim target revenues. If the difference between the total interim target revenues collected and recalculated interim target revenues shows that Hawaiian Electric "over-collected" interim target revenues, the difference will be refunded to customers with interest. If, however, the difference shows that Hawaiian Electric "under-collected" interim target revenues, no adjustment will be made to the target revenues collected in prior period(s).

p) **Earnings Sharing Revenue Credits** shall be the amounts to be returned to customers as credits through the RBA Provision, so as to implement the earnings sharing percentages and procedures described herein, commencing on June 1 of the calendar year containing the Annual Evaluation Date and over the subsequent 12 months after June 1.

q) **Major Capital Projects Credits** shall be the amounts to be returned to customers through the RBA Provision, to reduce the preceding year's RAM Revenue Adjustment (including interest at the rate described in the RBA Provision) for specific major capital projects that were not placed into service within the

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first nine months of the preceding RAM Period as expected. Because the Commission's review of the actual cost of Major Capital Projects may not occur until the rate case after these Major Capital Projects are included in one or more RAM Revenue Adjustment filings, Major Capital Projects Credits shall be used to refund to customers any prior collections (i.e., Return on Investment on Rate Base and Depreciation, plus interest) relating to the amount of Major Capital Projects costs that the Commission subsequently disallows for cost recovery. The Major Capital Projects Credits are to be refunded through the RBA Provision, commencing on June 1 of the calendar year containing the Annual Evaluation Date and over the subsequent 12 months after June 1.

r) **Baseline Capital Projects Credits** shall be the amounts to be returned to customers through the RBA Provision, to reduce the preceding year's RAM Revenue Adjustment (including interest at the rate described in the RBA Provision) for specific baseline capital projects that are disallowed by the Commission in a subsequent rate case if the disallowance reduces actual Baseline Capital Projects costs below the Baseline Capital Projects cost estimate derived using the method identified in part (f)ii. of Section 2 of the Rate Adjustment Mechanism below. Because the Commission's review of baseline capital projects may not occur until the rate case after such baseline capital projects are included in one or more RAM Revenue Adjustment filings, Baseline Capital Projects Credits shall be used to refund to customers any prior collections (i.e., Return on Investment on Rate Base and Depreciation, plus interest) relating to the amount of Baseline Capital Projects costs that the Commission subsequently disallows for cost recovery. The Baseline Capital Projects Credits are to be refunded through the RBA Provision, commencing on June 1 of the calendar year containing the Annual Evaluation Date and over the subsequent 12 months after June 1.

Rate Adjustment Mechanism

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The Company shall file with the Commission, the Consumer Advocate and each party to the Company's most recent rate case proceeding, the schedules specified below:

Evaluation Period Earnings Sharing:

1. For the twelve month period ending December 31, of each year (the "Evaluation Period"), with the filing to be made no later than March 31, of the year following the conclusion of the Evaluation Period. The schedules will include the following:
 - a) Company's recorded actual average net plant in service, accumulated deferred income taxes, inventory, working capital, and other rate base components. The schedules shall also show the utility's depreciation expense, operating and maintenance expense, income taxes, taxes other than income taxes, and other components of income for return, revenues, and capital structure, cost of debt, overall cost of capital, and return on common equity in the format set forth in the final order establishing the Company's latest effective rates.
 - b) All applicable accounting and pro forma adjustments historically required in annual reports filed with the Commission.
 - c) Pro-forma adjustments to remove from recorded revenues any out-of-period Earnings Sharing Revenue Credits, Major Capital Projects Credits, or Baseline Capital Projects Credits recorded during the Evaluation Period, and
 - d) A calculation comparing the achieved return on average common equity to the following earnings sharing grid, and indicating the Earnings Sharing Revenue Credit that should be recorded within the RBA to effect the prescribed sharing of earnings above authorized levels:

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| | |
|--|--|
| ROE at or below the Authorized ROE | Retained entirely by shareholders - no customer credits |
| First 100 basis points (one percent) over Authorized ROE | 25% share credit to customers |
| Next 200 basis points (two percent) over Authorized ROE | 50% share credit to customers |
| All ROE exceeding 300 basis points (three percent) over Authorized ROE | 90% share credit to customers |

RAM Period RAM Revenue Adjustment:

- 2) The Company shall provide additional schedules indicating the following proposed RAM Revenue Adjustment calculations applicable for the RAM Period using the methodology set forth below:
 - a) The Base Expenses shall be segregated between labor and non-labor amounts and treated as follows:
 - i. The labor component shall be quantified for the RAM Period by application of the Labor Cost Escalation Rate, reduced to account for the Productivity Offset to labor expenses.
 - ii. The Non-labor components quantified for the RAM Period by application of the Non-labor Escalation Rate.
 - iii. Tracked O&M expenses for fuel, purchased power, pension/OPEBs, IRP/DSM or other rate adjustment provisions are to be carried forward for the RAM Period at the fixed amounts established in the most recent rate case proceeding.
 - b) Depreciation and amortization expenses shall be quantified for the RAM Period by application of

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Commission-approved accrual rates to the actual recorded Plant in Service balances at the end of the Evaluation Period.

- c) The Authorized Base Revenue required for Rate Base shall be determined by multiplying the applicable Return on Investment percentage rate times Rate Base. The Authorized Base Revenue associated with return on investment shall include related income taxes on the equity components of such return. The quantification of Rate Base is specified in greater detail in part (f) of this Section 2.
 - d) The Authorized Base Revenue impact of any Exogenous Tax Changes shall be included in the RAM Period calculation of Authorized Base Revenues.
 - e) Revenue taxes shall be adjusted to account for the change in parts (a) through (d) of this Section 2.
 - f) Rate Base for the RAM Period shall be quantified as follows:
 - i. Plant in Service, Accumulated Depreciation, Accumulated Deferred Income Taxes and Contributions in Aid of Construction ("CIAC") shall be a two-point average of actual recorded balance sheet data at December 31 of the Evaluation Period, plus projected values at December 31 of the RAM Period determined as prescribed in parts (ii) through (v), below.
 - ii. Plant in Service shall be quantified by adding to the recorded balances at December 31 of the Evaluation Period, the simple average of Baseline Capital Projects plant additions recorded in the immediately preceding five calendar years, plus the estimated cost of completed Major Capital Projects that are anticipated to be in service by September 30 of the RAM Period. The cost of Major Capital Projects shall be limited to the dollar amounts previously approved by the Commission.
 - iii. Accumulated Depreciation at December 31 of the RAM Period shall be quantified by increasing the
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- recorded balances at December 31 of the Evaluation Period by the amount set forth in Section 2 part (b) above.
- iv. CIAC shall be quantified by adding to the recorded balance at December 31 of the Evaluation Period an estimate of the net change for the RAM Period. The net change shall be based on a simple average of cash and in-kind CIAC for the immediately preceding five calendar years for programs (i.e., numerous low cost capital projects) plus specific engineering estimates of any contributions for the Major Capital Projects anticipated to be in service by September 30 of the RAM Period.
 - v. Accumulated Deferred Income Taxes shall be quantified by adding to the recorded balances at December 31 of the Evaluation Period the estimated tax effect of the depreciation timing difference (i.e., difference between book depreciation and tax depreciation) on the Baseline Capital Projects and Major Capital Projects added to rate base during the RAM Period.
 - vi. Working Cash and all other elements of rate base not specifically addressed above shall be fixed at the dollar amount approved by the Commission in the last rate case Decision & Order. These elements of rate base shall be held constant until revised by a Commission Decision & Order in a subsequent general rate case.

Evaluation Procedures

Complete, indexed workpapers and electronic files supporting the RAM Adjustment Schedules shall be provided to the

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Commission, the Consumer Advocate and all other parties to the Utility's most recent rate case proceeding, coincident with the date of filing. The Company will be prepared to provide supplemental information as may be requested to ensure adequate review by the Commission, Consumer Advocate or other parties. The Consumer Advocate and the other parties may propose any adjustments determined to be required to bring the schedules into compliance with the above provisions and will work collaboratively to reach agreement on any proposed adjustments. As described in Sections 6-61-61 and 6-61-111 of the Hawaii Administrative Rules, Title 6, Chapter 61, based upon the Company's filed schedules and in the absence of any protests submitted by the Consumer Advocate or other parties not later than 15 days before the June 1 effective date of the RBA Rate Adjustments described in the RBA Provision tariff, the RBA Rate Adjustments incorporating the RAM Revenue Adjustment shall go into effect on the June 1 effective date and the Commission shall confirm in its monthly Tariff Order the effectiveness of the Company's proposed tariff, so as to achieve the revenue levels approved for both the Evaluation Period and RAM Period.

Notice

Notice of the annual Rate Adjustment Mechanism filing shall be provided to all affected customers of the Utility in accordance with the provisions of this section by publication in newspapers of general circulation within 30 days and by including notification with its billing statements within 60 days after the Company makes its annual filing pursuant to this tariff. The notice to customers shall include the following information:

- a) A description of the proposed revision of revenues and Earnings sharing credits;
- b) The effect of the proposed RAM Revenue Adjustment on the rates applicable to each customer class and on the typical bill for residential customers; and

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- c) The Company's address, telephone number and website where information concerning the proposed RAM Revenue adjustment may be obtained.

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Docket No.

CERTIFICATE OF SERVICE

I hereby certify that I have this date served a copy of the foregoing MOTION FOR INTERIM APPROVAL OF A DECOUPLING MECHANISM FOR HAWAIIAN ELECTRIC COMPANY, INC., HAWAII ELECTRIC LIGHT COMPANY, INC. AND MAUI ELECTRIC COMPANY, LIMITED; MEMORANDUM IN SUPPORT OF MOTION; DECLARATION OF COLTON CHING and ATTACHMENTS 1-7, together with this CERTIFICATE OF SERVICE, as indicated below by hand delivery and/or by e-mailing a copy to the following:

| Hand Delivery | E-mail | |
|---------------|--------|---|
| 2 copies | X | CATHERINE P. AWAKUNI EXECUTIVE DIRECTOR DEPARTMENT OF COMMERCE AND CONSUMER AFFAIRS DIVISION OF CONSUMER ADVOCACY P. O. Box 541 Honolulu, Hawaii 96809 (Catherine.P.Awakuni@dcca.hawaii.gov) (Jon.S.Itomura@dcca.hawaii.gov) (mbrosch@utilitech.net) (scarver@utilitech.net) |
| | X | RANDALL J. HEE, P.E. PRESIDENT AND CEO KAUAI ISLAND UTILITY COOPERATIVE 4463 Pahe'e Street, Suite 1 Lihue, Hawaii 96766-2000 (rhee@kiuc.coop) |

| Hand Delivery | E-mail | |
|------------------|--------|---|
| | X | TIMOTHY BLUME MICHAEL YAMANE KAUAI ISLAND UTILITY COOPERATIVE 4463 Pahe'e Street, Suite 1 Lihue, Hawaii 96766-2000 (tblume@kiuc.coop) |
| | X | KENT D. MORIHARA, ESQ. KRIS N. NAKAGAWA, ESQ. RHONDA L. CHING, ESQ. MORIHARA LAU & FONG LLP 841 Bishop Street, Ste. 400 Honolulu, HI 96813 (kmorihara@moriharagroup.com) Attorneys for KAUAI ISLAND UTILITY COOPERATIVE |
| | X | WARREN S. BOLLMEIER II PRESIDENT HAWAII RENEWABLE ENERGY ALLIANCE 46-040 Konane Place, No. 3816 Kaneohe, HI 96744 (wsb@lava.net) |
| | X | CARL FREEDMAN HAIKU DESIGN & ANALYSIS 4234 Hana Highway Haiku, Hawaii 96708 (jcfr@hawaiiantel.net) |
| | X | GERALD A. SUMIDA, ESQ. TIM LUI-KWAN, ESQ. NATHAN M. SMITH, ESQ. CARLSMITH BALL LLP ASB Tower, Suite 2200 1001 Bishop Street Honolulu, Hawaii 96813 (gsumida@carlsmith.com) (tlui-kwan@carlsmith.com) (nnelson@carlsmith.com) Attorneys for HAWAII HOLDINGS, LLC, dba FIRST WIND HAWAII |

| Hand Delivery | E-mail | |
|------------------|--------|--|
| | X | MIKE GRESHAM HAWAII HOLDINGS, LLC, dba FIRST WIND HAWAII 33 Lono Avenue, Suite 380 Kahului, Hawaii 96732 (mgresham@hawaii.rr.com) |
| | X | DEBORAH DAY EMERSON, ESQ. GREGG J. KINKLEY, ESQ. DEPUTY ATTORNEY GENERAL DEPARTMENT OF THE ATTORNEY GENERAL STATE OF HAWAII 425 King Street Honolulu, Hawaii 96813 (gregg.j.kinkley@hawaii.gov) Attorneys for the DEPARTMENT OF BUSINESS, ECONOMIC DEVELOPMENT, AND TOURISM |
| | X | THEODORE PECK DEPARTMENT OF BUSINESS, ECONOMIC DEVELOPMENT, AND TOURISM State Office Tower 235 South Beretania Street, Room 501 Honolulu, Hawaii 96813 (tpeck@debedt.hawaii.gov) |
| | X | ESTRELLA SEESE DEPARTMENT OF BUSINESS, ECONOMIC DEVELOPMENT, AND TOURISM State Office Tower 235 South Beretania Street, Room 501 Honolulu, Hawaii 96813 (eseese@dbedt.hawaii.gov) |
| | X | MARK DUDA PRESIDENT HAWAII SOLAR ENERGY ASSOCIATION P. O. Box 37070 Honolulu, Hawaii 96737 (mark@suntechhawaii.com) |

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|------------------|--------|---|
| | X | DOUGLAS A. CODIGA, ESQ. SCHLACK ITO LOCKWOOD PIPER & ELKIND Topa Financial Center 745 Fort Street Mall, Suite 1500 Honolulu, Hawaii 96813 (dcodiga@sil-law.com) Attorney for BLUE PLANET FOUNDATION |

DATED: Honolulu, Hawaii, November 25, 2009.



THOMAS W. WILLIAMS, JR.
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HAWAII ELECTRIC LIGHT COMPANY, INC., and
MAUI ELECTRIC COMPANY, LIMITED